# Policy briefing

PFS | CII

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# Public financial guidance: a new service delivery architecture post-Money Advice Service

As part of his 2016 Budget Statement, the Chancellor announced the demise of the Money Advice Service, and published a consultation restructuring the delivery of public financial guidance: www.gov.uk/government/consultations/public-financial-guidance-review-proposal-for-consultation

This decision follows a Treasury consultation that closed in December 2015 on the future of public financial guidance delivery. It follows a debate which has been going on for years over the need for such a service, whether unregulated guidance is even practical for consumers, and who should deliver it.

Notably on the latter point, the Thoresen Review in 2008 had always intended any new organisation to be strategic in nature rather than delivery-orientated, and should work with existing bodies on delivery of services.

The Treasury is now consulting on the creation of two new organisations:

- A new pensions guidance body will take on and extend the services offered by The Pensions Advisory Service (TPAS) and Pension Wise and the pensions services offered by the Money Advice Service. Its objective would be to make sure that consumers can get all their pensions questions answered in one place, including questions on the pension freedoms.
- A new guidance coordinating body to replace the Money Advice Service. This would be strategic in nature, would work with existing bodies that would take forward the actual delivery of services, and not be publicly branded.

**Next Steps:**

The consultation closes on 8 June 2016, with a view to a final decision published in the autumn.

The new bodies would require legislative changes which the Government believes will take 6-12 months, and allowing for a reasonable transition period, the new bodies would be live by April 2018.

## Background

This decision follows a Treasury consultation that closed in December 2015 on the future of public financial guidance delivery. It also follows a year after the Government's independent review of the Money Advice Service undertaken by Christine Farnish, the launch of Pension Wise which was an integral part of the Chancellor's pension freedoms.

### Scope and terms

For the purposes of this consultation and this briefing, the Government set out terms for 'advice', 'guidance', 'public financial guidance' and 'financial capability' (consultation p.5):

**Advice:** refers to regulated financial advice delivered by a qualified adviser. Note that as a result of the Financial Advice Market Review final report in March 2016, the Treasury will soon be consulting on aligning its definition of the regulated activity 'advising on investments' with that set out in Markets in Financial Instruments Directive (MiFID):

- ‘investment advice’ as set out in MiFID [directive 2004/39/EC, Art.4.1(4)] is fairly straightforward and is built around the giving of a *personal recommendation*: “the provision of personal recommendations to a client, either upon its request or at the initiative of the investment firm, in respect of one or more transactions relating to financial instruments”; whereas
- the current ‘advising on investments’ definition in the UK Regulated Activities Order 2001, Art.53 is much more complicated and wide ranging: “advising a person is a specified kind of activity if the advice is— (a) given to the person in his capacity as an investor or potential investor, or in his capacity as agent for an investor or a potential investor; and (b) advice on the merits of his doing any of the following (whether as principal or agent)— (i) buying, selling, subscribing for or underwriting a particular investment which is a security or a contractually based investment, or (ii) exercising any right conferred by such an investment to buy, sell, subscribe for or underwrite such an investment”

**Guidance:** refers to other forms of help provided to consumers, which do not meet the Government’s definition of advice.

**Public Financial Guidance:** refers to publicly funded, free-to-client, impartial financial guidance.

**Financial capability:** refers to the skills, knowledge, attitude and motivation requiredto manage money effectively. For the purposes of this document, the term also captures “financial resilience” or the ability to handle periods of financial difficulty.

## Recent developments in developing financial guidance

The topic of making available to the public a service providing unregulated guidance that is free-at-point-of-use and available nationally by phone, internet and face-to-face has been a key public policy debate over the last decade.

- **National financial capability strategy:** in 2005, the then-Financial Services Authority published research definitively confirming low levels of financial capability and declared that a key public policy objective was to improve the public’s ability to consider personal and household finances and transact retail financial services.
- **Retail Distribution Review of financial advice:** as part of its review of the regulations around regulated financial advice, the then-FSA also noted a generally unserved market of about 60% of all adults who have never received advice and probably never will. The RDR started in 2007 identifying problems with the quality of the advice sector and concluded with rule changes that came into force in 2012. Some stakeholders have argued that the RDR has exacerbated a so-called ‘advice gap’.
- **Thoresen Review of the generic financial advice**: starting in 2007 and concluding in 2008, the review called for a national service providing that would help consumers with budgeting weekly or monthly spending; saving and borrowing; protecting and insuring the individual and the family; retirement planning; understanding tax and welfare benefits better; and translating technical financial language into something that people understand.
- **Creation and struggle with the Money Advice Service:** following a feasibility study in 2009, the Money Advice Service (MAS) was formed from the FSA as an independent body to deliver on Thoresen’s recommendations. The following years were plagued by concerns about its name and the fact that it was duplicating the delivery of existing services.
- **Pension freedoms and Pension Wise:** the debate over financial guidance rekindled with the Chancellor’s announcement of a “guarantee of free advice” as part of his wider pension freedoms. These reforms quickly created Pension Wise, a unified service delivered by TPAS, Citizens Advice and Government delivering the telephone, face-to-face and internet channels respectively.

## The debate about financial guidance and the Money Advice Service

The recurring core elements of the financial guidance and MAS debate could be summarised under three main headings: the need for financial guidance, whether it is even practical to consumers, and who should deliver it.

### Need for financial guidance:

In the context of especially retail investments and pensions decumulation, it has been argued that large groups of consumers are underserved by regulated advice.

They either cannot afford advice (even pre-RDR), they do not think they have enough investment to warrant a financial adviser, or they do not wish to use one. This gap needs to filled by impartial and trusted help with major financial decisions.

In 2008, an independent review for the Government undertaken by Otto Thoresen concluded that such a service provision was necessary in the UK, to address a range of financial capability and household financial planning issues.

### Whether such an unregulated financial guidance service is practical for consumers:

Because the service is not a regulated activity, it has to avoid giving customers personal recommendations about specific products or services. Would consumers benefit from a service that is unable to do this? The Thoresen Review argued that this is possible, and importantly this insight has been borne out in activities since then:

- in 2009, Citizens Advice and the Personal Finance Society piloted and ran its *MoneyPlan* initiative whereby trained professional financial advisers gave financial guidance to the public on a pro bono basis through local Citizens Advice Bureaux across the UK. Subsequent independent reviews revealed that although no personal recommendations or even broader regulated advice were given, consumers found the assistance received helpful by several measures;
- an independent review of the post-Thoresen review "money guidance" pilot projects found the assistance received by customers to be helpful. Consumers thought the assistance was helpful, and in many cases acted upon the suggestions given; and
- research by several sources including ourselves suggests that although PensionWise promotion has been lacking, those consumers who *have* contacted Pension Wise since its launch in April 2015 have had positive experiences and found the assistance helpful.

### Who should deliver this service:

Although the Thoresen Review called on the creation of a national service, it had been recognised that a financial capability and financial guidance in its various forms was already – even in 2008 – being delivered a range of existing bodies, and its Interim Report specifically mentioned organizations like TaxAid, Citizens Advice, National Debtline, the Consumer Credit Counselling Service, and The Pensions Advisory Service.[1]

So it was made very clear quite early on that in the term "service", Thoresen had in mind what he called a 'hybrid model' where a smaller organisation carried out more of a strategic oversight and coordination role rather than all the financial capability recommendations. It said "it will be extremely important for a service to both work with and build on existing services".

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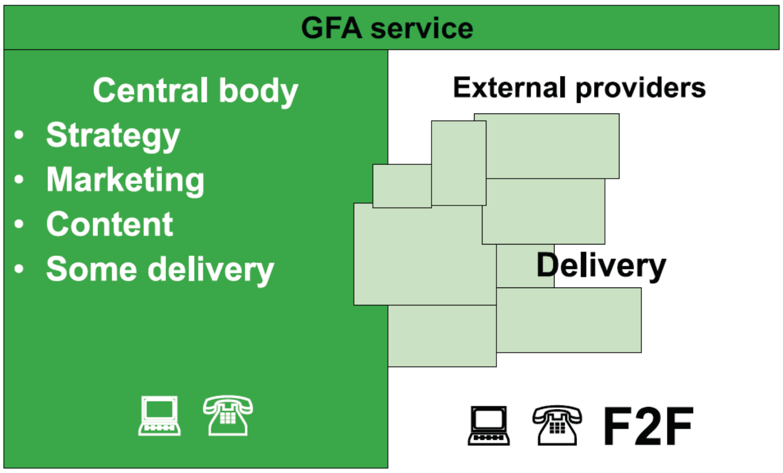
[1] HM Treasury, *Thoresen Review of Generic Financial Advice: Interim Report*, October 2007, pp.18-27. Contrary to popular recent misconception, the Pensions Advisory Service (TPAS) had been in place long before the introduction of the Government's 'pension freedoms': it was formed in 1983.

*Perhaps one of Thoresen's most important prescriptions was an explicit warning about the dangers of duplicating existing services given by those other bodies, or even adopting a model that delivers the services by itself:*

> "The Review does not believe it would be sensible to establish a new end-to-end service operating in isolation from existing provision. This would be unlikely to improve service to customers. At best it would simply introduce a further option into an already complex set of choices. At worst, depending on funding arrangements, it could cause existing provision to fade, and in the long term lead to a reduction in both the amount and diversity of help available, with damage to some successful, highly trusted brands. Finally, the infrastructure and staff required to deliver this sort of service would make it an expensive option."[2]

**Figure 1: the 'hybrid model' of Generic Financial Advice (GFA) originally proposed by the Thoresen Review**




*Directly from HM Treasury, Thoresen Review, Interim Report, Oct 2007, p.55*

Unfortunately his words were prophetic as this is exactly what has happened. Consumers are none the wiser. The organisation faced repeated criticisms about an unwieldy organisation, range of objectives and budget. And some trusted brands have disappeared in its wake: National Debtline and the Consumer Credit Counselling Service.

## Treasury proposals

The government is now consulting on putting in place a new delivery model for public financial guidance. This is designed to direct more funding to the front line, and focus support on areas of greatest consumer need. It is built around the creation of two bodies: a pensions guidance body, and a strategically oriented financial guidance body.

### A new pensions guidance body

- This new pensions guidance body will take on and extend the services offered by TPAS and Pension Wise and the pensions services offered by MAS.
- **Key objective:** to make sure that consumers can get all their pensions questions answered in one place, including questions on the pension freedoms. The pensions guidance body will be accountable to the Department for Work and Pensions (DWP) and will be funded bya levy on the Financial Services industry, and a levy from pensions schemes.
- **Governance:** it would set up in legislation to be accountable to government (DWP) but operate at arm's length to provide a more independent and impartial service to consumers. It will be designed so that it could respond quickly to any changes in pensions policy and legislation, so that customers can access accurate and up-to-date information, simple tools and guidance, when they need it
- **Funding:** it would come from the pensions and financial services levies, collected and administered by the Pensions Regulator (TPR) and the Financial Conduct Authority (FCA) respectively. The initial expectation is that efficiencies generated through combining services will reduce the overall budget for pensions guidance, allowing more funding will be directed to the front line.

[2] Ibid., p.52, para.3.20.

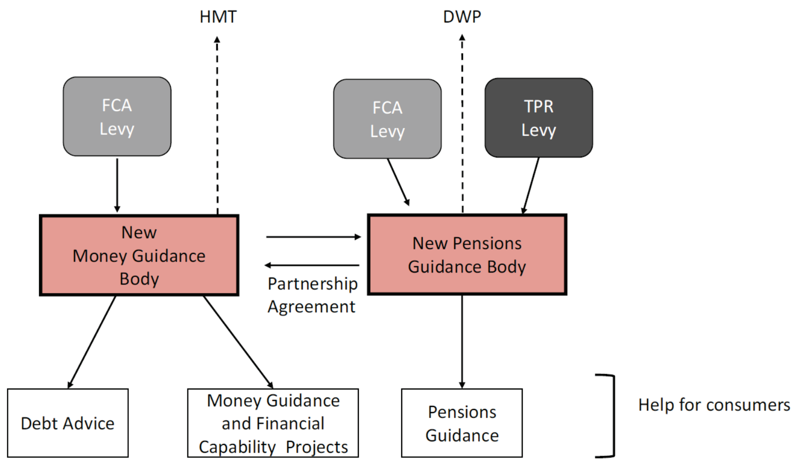
- **Branding:** it has been suggested that the new service might simply adopt the PensionWise brand, and the Government stated that it "will ensure that any name given to the new guidance body is appropriate and will resonate well with the public".
- **Interaction with other elements of the pensions process:** the Government seems to hope that the new guidance body will rationalise information from different sites. Depending on how this is delivered, could this repeat the mistakes made before?

> "Pensions information is currently widely available from different publicly funded websites which may add to an individual's confusion. The intention is to rationalise pensions information and for it to be provided via the website of the single pensions guidance body. A single unified service that is dedicated to supporting individuals with their pension provides the opportunity to give a greater coverage of pensions matters, standardisation of language, terminology and consistent accurate pensions information available to individuals at all times."[3]

## A new money guidance body

- The government believes that the statutory regime underpinning MAS is flawed and it will replace MAS with a slimmed down money guidance body.
- The new money guidance body will be a substantially smaller organisation than MAS and will seek to direct as much funding as possible to the front line.
- **Objectives:** to improve financial capability in the UK, but it will not have a public facing brand. Treasury is proposing that the body:
    - Identify gaps in the financial guidance market;
    - Commission debt advice and targeted money guidance and financial capability projects and services to fill any gaps identified; and
    - Provide funding to third parties to deliver these projects and services.

**Figure 2: The proposed new delivery model for public financial guidance:**




*Directly from HM Treasury consultation, Public Financial Guidance, p.11, Chart 2.A.*

- **Establishment:** it will be set up in legislation with clear and specific statutory objectives. The government will develop primary legislation to set up the new statutory framework, either by way of amendment to the existing statute or by creating a new set of powers. Regardless of the statutory change, the government will build on MAS' knowledge base in forming this new body.
- **Statutory remit:** like the pensions body, the new money guidance body will be at arms-length from the government. The accountability arrangements underpinning MAS were not sufficiently clearly drawn and both the FCA and the Treasury think it is vital that the new body has a clear accountability regime.
- **Oversight:** it will be solely accountable to the Treasury, with FCA's role limited to collecting the levy. Governance controls will include Treasury approval of business plans, budget and CEO and Chair appointments. The money guidance body will be accountable to Parliament, and subject to NAO audit. These arrangements will be set out in a framework agreement between the Treasury and the new money guidance body.

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[3] Consultation, p.13, para.2.24.

- **Funding:** the new money guidance body will continue to be funded by a levy on the financial services industry. The government thinks that a levy funded model remains appropriate given the benefits which financial services firms will gain over time from effective debt advice, money guidance and financial capability interventions.
- **Debt advice:** the new money guidance body will award contracts to deliver debt advice to impartial, FCA authorised debt advice providers. Free-to-client debt advice is currently provided by a range of organisations, mostly from the third sector. The debt advice levy funding currently makes up around 40-50% of the free-client debt advice providers' total budget and the government has no plans to reduce its funding contribution.
- **Branding:** *The Government does not believe that the new money guidance body needs a strong public brand. There is no need therefore to have a name that resonates with the general public. The purpose of the new guidance body is to be a largely invisible commissioner of money guidance.* It now admits that the name 'Money Advice Service' has always been misleading as MAS cannot provide regulated advice. It will be more important than ever to have names which do not confuse consumers when the Financial Advice Market Review has completed a consultation on appropriate terms for advice so the 'Money Advice Service' brand will be dissolved.

## Partnership agreement between the two organisations

This will sit between the two bodies to ensure that consumers who need both pensions and wider financial guidance are directed to the right places and the two bodies establish good links from the start to ensure consistent quality standards. The Treasury believes this would draw "on the successful example of the governance arrangements at the Prudential Regulation Authority (PRA) and the FCA".

## Our overall view

The CII welcomes these proposed reforms to the financial guidance architecture. We have always supported facilitating the delivery of financial guidance, and have actively participated in the debate to bring it about since even before the Thoresen Review.

We support the idea that a new financial guidance body should be strategic in nature rather than delivery orientated.

- The Personal Finance Society itself has been participating in initiatives such as MoneyPlan since 2009.
- Since MAS was formed, many new services have done much to capture the public's trust and confidence, including the CII's own insurance Made Simple campaign and the Personal Finance Society's YourMoney microsite including financial adviser search resource. We have always expressed concern about MAS duplicating these services.
- We support the reorganisation of services, believing there are significant overlaps as well as underlaps between MAS and the Pension Wise partners.

We support the work of The Pensions Advisory Service, and believe that this organisation should form the backbone of the new pensions guidance body.

- TPAS has repeatedly demonstrated its expertise, experience and enthusiasm towards a professional approach since well before the Government's pensions reforms.
- Since PensionWise implementation, independent observation has shown that it has effectively delivered its part of the services.
- Our one concern is the long timeframe for implementing these changes. If the Government could take a decision in Autumn 2016, then the new bodies should be formed as soon thereafter as possible, with the supporting legislation in place a year later.

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