

Briefing note by the Resolution Foundation: Financial Services Bill Second Reading 30.11.09

- Money Guidance is a service, currently at pathfinder stage in the North-East and North-West, which provides impartial advice on money issues. The government committed to rolling the service out nationally in spring 2010 in the Budget 2009.
- The Financial Services Bill contains a provision to establish a new body, the Consumer Financial Education Body (CFEB), to raise funds and run the national Money Guidance service.

1. The importance of Money Guidance

- The Foundation identified that low earners fell into an ‘advice gap’ where commercial advisers focused their attention on those better off and the third sector and government focused on the most vulnerable.
- Our research found that a low earner in receipt of money guidance could be £60,000 better off by the age of 60 by making sounder financial decisions throughout their life. It could also save the UK £100 million in the first 10 years as people made better financial decisions and moved off some benefits, such as pension credit.
- A poll conducted by the Resolution Foundation in March 2009 found that:
 - nearly 3 million low earners now worry ‘all the time’ about their personal finances - this is double the number in 2007 (the same poll was carried out for the Foundation in 2007).ⁱ
 - in 2007, only 1 in 10 low earners worried ‘all the time’, compared to nearly 1 in 5 today.ⁱⁱ
- Aimed as a source of primary help it should enable people to change their behaviour before they ‘miss their first payment’ and fall into financial crisis. 19.2 million people are at vulnerable to the consequences of poor financial decision-making (see evidence from pathfinders for further information).

2. Key points on the Financial Services and Business Bill

The Consumer Financial Education Body

- The new body proposed in the Bill will act as a means to increase the profile of Money Guidance and the wider financial capability agenda. The Foundation stated in its early research that Money Guidance should sit independently of the FSA within its own ‘unit’ so that it is able to focus on meeting the needs of the consumer.
- The new body will also be able to raise funding via a variety of streams – a levy on consumer credit firms, government funding and dormant bank accounts. The use of the existing FSA levy and the OFT’s licensing regime will mean no extra administrative burden for financial services.

The Foundation believes it is crucial that the roll out of Money Guidance is kept on track for early 2010. If the Bill does not receive Royal assent or the new body does not make it through Parliament, Money Guidance should still be rolled out by the FSA.

3. The Money Guidance Pathfinders – branded ‘Money Made Clear’ – the evidence

- Take-up is expected to reach 500,000 – 750,000 in the North-East and North-West.
- 227,610 unique web hits.
- 77% of face-to-face sessions have been with people vulnerable to the consequences of poor decision making.
- Most likely topics of inquiry – budgeting, credit, borrowing, pensions and retirement planning. It is also suggested a single point of contact on money matters is working as it is being used as a source of information on things from maternity benefits to funeral expenses.

Translating the evidence for a national system:

- The Deloitte impact model, which has been updated in light of the interim pathfinder evaluations, finds the net benefit over a 52 year period (life-time spending) is:
 - for the consumer £10.5 billion
 - for the Financial Services Industry £3.4 billion
 - for the UK Government £2.3 billion
- Estimate that a new service will reach 3-4% of the population (1.5 million).
- Estimate that the new service and the CFEB will cost £37m - £56m in years 1 to 5.

4. More detail on the Consumer Financial Education Body

6A (1) The Authority must establish a body corporate (“the consumer financial education body”) whose function (“the consumer financial education function”) is to enhance—

- a) the understanding and knowledge of members of the public of financial matters (including the UK financial system); and
- b) the ability of members of the public to manage their own financial affairs.

...

(2) The consumer financial education function includes, in particular—

...

- e) the provision of information and advice to members of the public.

In the Reforming Financial Markets paper, the Government proposed to introduce legislation requiring the Financial Services Authority (FSA) to set up a new consumer education authority to take the lead on financial capability across the UK.

Provisions in the Financial Services Bill remove from the FSA its objective of promoting public understanding of the financial system and transfer this to CFEB, expanding this to encompass a wider and more detailed definition of financial education/capability. The FSA’s financial capability programmes, delivered as part of the National Strategy for Financial Capability, transfers to CFEB along with this objective. CFEB will additionally lead the national implementation of Money Guidance from 2010. Money Guidance will represent the majority of the body’s activity and expenditure (certainly in the short to medium term).

Rationale for intervention

The new CFEB was proposed to ensure that rollout of Money Guidance was appropriately and sustainably delivered, funded and governed. It also stemmed from

a policy desire to increase the relative prioritisation and profile of the financial capability agenda, while building on the excellent progress made by the FSA to raise levels of financial capability across the UK.

5. The Foundation's work on generic financial advice

In 2005, the Resolution Foundation identified that the 9.1 million low earners of working age and 4.4 million low earners in retirement, fell into an 'advice gap'. The Foundation developed proposals for a national generic financial advice service. This work led to Ed Balls MP, then Chief Secretary at HM Treasury, establishing the *Thoresen Review* which recommended in March 2008 that a Money Guidance service be set up. Pathfinders were launched earlier this year in the North East and North West and the 2009 Budget announced the service should be rolled out nationally from 2010.

The 'advice gap'

The Foundation's research demonstrated that if low earners made sounder financial decisions it could deliver welfare savings of £100 million within 10 years, provide long term benefits to the financial services industry and low earners themselves could be £60,000 better off by the age of 60.ⁱⁱⁱ However, the 'advice gap' meant low earners went without the advice that could help them achieve this - commercial advisers focused their attention on those better off, whilst the third sector and government focused on the most vulnerable.

A poll conducted by the Resolution Foundation in March 2009 found that:

- nearly 3 million low earners now worry 'all the time' about their personal finances - this is double the number in 2007 (the same poll was carried out for the Foundation in 2007).^{iv}
- in 2007, only 1 in 10 low earners worried 'all the time', compared to nearly 1 in 5 today.^v

The two polls also found amongst the general public that:

- in 2007, 45% of respondents said that they would go to a bank and building society for financial advice compared to only 29% today
- in 2007, 32% of respondents said that they would use an Independent Financial Adviser as a source of advice compared to only 20% today
- today, 45% of people still rely on friends and family for their financial advice (a similar figure to two years ago) rather than trained financial advisers

This makes it even more important that low earners have a source of impartial, free, information and advice to help them manage their money and avoid getting into financial trouble.

6. The Resolution Foundation & why low earners?

The Resolution Foundation is an independent research and policy organisation. Our goal is to improve the well-being of low earners by delivering change in areas where this income group is currently disadvantaged. We do this by:

- undertaking research and economic analysis to understand the challenges facing low earners
- developing practical and effective policy proposals
- engaging with policy makers and stakeholders to influence decision-making and bring about change

'Low earners' is the term the Foundation uses for the group of people who are 'too rich' to qualify for state support yet often 'too poor' to access the benefits of private markets.

At its simplest, we consider the group to be made up of households in income deciles 3, 4 and 5: that is, with gross annual income between £11,650 and £27,150.^{vi} Around 7.6 million households fall into this category in the UK, equivalent to around 13.4 million adults.

The Foundation published *Squeezed: the Low Earners' Audit* in March which puts low earners' precarious position under the spotlight – please see our website for further information.

7. Further information on the pathfinders:

How to access the Money Made Clear pathfinders:

- online at www.moneymadeclear.fsa.gov.uk where consumers can find step-by-step guides, interactive tools and completely impartial comparison tables;
- on the telephone on 0300 500 5000 where callers can speak to a trained money guide to work out what's right for them, based on their needs and circumstances. They can also book an appointment to see a money guide face to face in their local area;
- or face-to face (see below).

a) Background

- Launched on April 14, 2009 in the North East and North West of England
- Jointly funded by the FSA and HMT - £6 million each
- Their aim is to reach 500,000 – 750,000 through all channels (web, phone and face-to-face)
- There will be approximately 100 trained 'money guides'

b) Partners

- Key face-to-face partners:
 - Citizens Advice in North East
 - A4E in North West
- Further partners delivering some face-to-face advice:
 - Knowsley Advice Forum
 - Liverpool Money Talk Consortium (RAISE)
- Further partners to deliver small number of face-to-face sessions:
 - AgeConcern North East
 - AgeConcern North West
 - Manchester Credit Union
 - Association of British Credit Unions Ltd
 - Police Mutual
 - Young People's Support Foundation
 - Salford Unemployed and Community Resource Centre and Wirral Health and Safety Welfare Advice Centre
 - Oddfellows Friendly Society and Life Academy
- Teleperformance (who run the FSAs contact centre) run the phone line
- The FSA runs the MoneyMadeClear web-site in-house

c) Referrals

- Referral into Money Guidance will be via trusted intermediaries, such as:
 - Jobcentre Plus
 - Sure Start Children's Centres
 - Housing Associations

- d) Engagement
 - Marketing is restricted to the pathfinder areas for the pilot
 - Specialist ethnic minority engagement
 - There will be extensive marketing throughout the regions:
 - TV (North West only)
 - Radio (North East only)
 - Local press
 - Leaflets
 - Online display advertising and paid-for search (targeting North East and North West)
 - Partners will promote through local networks

- e) Evaluation

Will examine:

 - What works?
 - What is the experience of the service?
 - Does it improve confidence?
 - What do people do (or not do)?

8. For further information please contact Cara Brown, External Affairs Manager at the Resolution Foundation on 020 7731 9143 / 020 3372 2954 or cara.brown@resolutionfoundation.org

Endnotes:

1. *Closing the advice gap: providing financial advice to people on low incomes; A national dividend: The economic impact of financial advice; and The advice gain: The impact of generic financial advice on the financial services industry* all of which can be downloaded from the Foundation's website.

2. 2007 YouGov poll - In 2007 8% of low earners polled said that they worried about their personal finances 'all the time' compared to 20% today. The 2007 poll was also carried out by YouGov. The sample size for the survey was 2,010 adults. Fieldwork was undertaken from 25-27 July 2007. The survey was carried out online. The results have been weighted and are representative of all GB adults (aged 18+).

3. 2009 YouGov poll – in 2009 19% of Low Earners polled said that they worried 'all the time' about their personal finances. The YouGov Poll was carried out from the 20-23 March 2009 with a sample size of 2,049. To ascertain the low earner statistics we use the income brackets of gross annual income in a household between £13,000 - £23,999. This does exclude some low earners but does include the core of our group. Higher earners are those in the top two income brackets earning between £32,000 and over a year.

4. *Squeezed: the low earners' audit* shows that we define the low earner group as including all those with below-median income (from all sources) who are not dependent on state support. For the purposes of analysis there are a number of different ways of capturing this group and this note uses a variety of methods, depending on the data available in the underlying sources.

- At its simplest, we consider the group to be made up of households in income deciles 3, 4 and 5: that is, with gross annual income between £11,650 and £27,150.
- Around 7.6 million households fall into this category in the UK, equivalent to around 13.4 million adults.
- We define two other income groups in relation to low earners: households with above-median incomes (income deciles 6-10) are considered *high earners*, while those with below £11,650 income (deciles 1 and 2) are considered *benefit-dependent*.
- This definition inevitably excludes some low earners (those in income deciles 1 & 2 who are not benefit-dependent and those living in high earner households who are individual low earners) and includes some benefit-dependent individuals. However, it provides a reasonable picture of the position faced by the majority of low earners.