

The Resolution Foundation Party Conference Season
2008

Financial health meetings: Drowning not waving?

The Resolution Foundation and the Money Advice Trust held joint events at the Labour and Conservative Party conferences on the theme of financial health. The aim of the meetings was to discuss how we might build on current financial inclusion and capability agendas to make people more resilient and to explore what support people need to weather the current financial climate.

Summary of Discussions

Some broad themes emerged in the discussions:

Urgency needed given economic context

- The dramatic developments taking place to rescue banks and the impending economic recession made the focus on individuals' financial health critical. Getting impartial advice to people concerned about their financial health, or having to make important financial decisions (e.g. taking a pension), was considered an urgent priority.

Every cloud has a silver lining?

- A potential virtue of the current situation was that it might force financial services companies to re-think how they behave, and might also nudge individuals towards a more responsible money culture

Strategic oversight needed to help safeguard financial health infrastructure

- The sustainability of the current financial health infrastructure was in threat given that Government will have to restrict spending further. A framework which gives a clear, strategic oversight might help improve sustainability.
- A Financial Health Service framework was discussed with three elements: preventative, primary and remedial

Creative approaches required to stimulate demand and improve financial health

- Creative thinking is needed to engage with people who might not recognise they need help and to get them to make decisions in support of their long-term financial health
- Whilst the remedial field is more crowded (than primary activity), it still does not meet demand, and it will be important not to stimulate demand unless it can be met.

1/ Labour Party Conference, Tuesday 23rd September

Speakers:

James Plaskitt MP, Parliamentary Under Secretary of State, DWP

Clive Cowdery, Chairman of the Resolution Foundation

Brian Pomeroy, Financial Inclusion Taskforce and Trustee of Money Advice Trust

Attendees:

Chris Pond, Financial Services Authority

Carole King, Provident Financial

Mona Patel, Investment Management Association

Phil Hickley, AXA

Mark Lyonette, Association of British Credit Unions

Martin Hall, Money Advice Trust

Jon Elwes, Money Advice Trust

Sue Regan, the Resolution Foundation

James Plaskitt opened the discussion by setting out the government's current financial inclusion plans:

- the extension of the Growth Fund and the positive impact this is having on credit unions, and plans to revise the Common Bond
- the expansion of free debt advice
- the progress of the Let's Talk Money campaign and the Financial Inclusion Champions' initiative
- the roll-out of the Savings Gateway; and
- the reform of the Social Fund Budgeting Loans scheme - describing how the Welfare Reform Bill will include enabling powers to give legal basis to recapitalise the social fund through a partnership with a company able to provide private finance, and the aspiration to pilot a scheme to test this model

Clive Cowdery introduced the Resolution Foundation and its work which focuses its attention on low earners (including the working poor) and that this group are facing a number of challenges in the current economic climate. Clive described the existing infrastructure and then set out three key dilemmas people are currently facing:

- what to do if having to reschedule debt in the context of the credit crunch
- what to do if having to remortgage
- what to do if having to retire in the economic downturn (in particular making a decision about an annuity which could affect people's financial health for their entire retirement.)

Clive stressed we should be getting help to people with 'recession-like urgency.'

Clive also set out the need for a single strategic plan which would help defend different parts of the financial health infrastructure that might be vulnerable to spending cuts in an economic downturn. A 'financial health service' structure could provide that overarching framework:

- preventative work: financial education and initiatives to improve financial literacy
- primary services: financial advice and guidance available at the point of need
- remedial services: debt advice and other 'crisis' services

Brian Pomeroy picked up on the need for urgency in the current economic context and suggested an 'Act Now' campaign which could signpost people to a range of services that would offer help. This might be run by the FSA. Brian also highlighted three further current issues

- the need for the Money Guidance pathfinders to pilot the limits of how directive/personalised advice can be and whether it could work within the current regulatory framework
- the need for greater transparency in the advertising of fee-charging debt advice services.
- as part of the government's energy statement, utility companies have agreed to work with the Financial Inclusion Taskforce to look into how consumers can be helped in the context of higher utility costs (check this with Jon?) The Taskforce has agreed to report by December.

Brian concluded by suggesting that a 'virtue' could be made out of the current economic crisis in revising individuals and industry behaviour – a shift to more traditional values, more responsible lending, and greater prudence. We could use the current crisis to facilitate this change in institutional and individual behaviour.

Discussion

A number of key points and themes were discussed:

- the joint action plan between the FSA and HMT on financial capability provided some strategic oversight
- the FSA's campaign on mortgages would signpost people to other services
- the Money Guidance pathfinders would use the assumptions set out by Thoresen and the FSA did not feel they were constrained by the current regulatory position
- that there should be a link made between the Money Guidance pathfinders and the regional financial inclusion champions; and with the regional financial capability ambassadors
- that lack of trust and confidence in both the government and the financial services industry was being magnified in the current economic crisis
- that we needed lateral and creative thinking to get people to address their financial issues, as 'demand' is still a big problem (people not seeking the help that they need)
- picking up demand at the point people are currently being turned down by mainstream lenders is one opportunity
- recognising that you can't 'unmake people's experiences' and the need to work with the grain of human behaviour (the FSA's report on behavioural economics published in Summer 08 is useful)

James Plaskitt concluded by stressing that we needed to make sure that systems were in place to be triggered at an individual's first point of contact, and to ask who is there at this first point of contact. James described how people have multiple points of contact where the first signs of financial stress might be detected and highlighted a number of 'messengers' – landlords, the voluntary sector, the industry.

2/ Conservative Party Conference, Tuesday 31 September

Speakers:

Damian Hinds, Prospective Parliamentary Candidate for East Hampshire

Joanna Elson, Money Advice Trust

Clive Cowdery, the Resolution Foundation

Alistair Matthew, Personal Finance Education Group

Attendees:

Stephen Haddrill, Association of British Insurers

Gary Follis, Alliance and Leicester

Ian Costain, AXA
Mona Patel, Investment Management Association
Carole King, Provident Financial
Jon Elwes, Money Advice Trust
Sue Regan, Resolution Foundation
Helen Aynsley, Resolution Foundation

Clive Cowdery introduced the work of the Resolution Foundation, stressing its focus on improving outcomes for low earners (which include the “working poor”) and offered some background to the Foundation’s work on generic financial advice/Money Guidance.

Clive described that one way to examine financial health is to draw an analogy with the National Health Service:

- A wide variety of contact points
- The public can talk to qualified individuals about their health needs
- Three broad types of services: Preventative (five fruit % veg a day) :
Primary (the GP) and Remedial (A & E)

This framework could be applied to the financial health infrastructure.

Joanna Elson set out the key challenges using this financial health framework:

- Preventative: you need to start financial education early
- Primary: it is important not to reinvent wheels
- Remedial: we need to consider how to get people to where they need to go. Remedial debt advice is a crowded house - MAT is currently researching why people go to fee-charging financial advisers. And whilst there are many providers, funding is patchwork and demand still exceeds supply.

Joanna also mentioned that CCCS and GE Money are currently piloting a scheme where GE hot-keys customers to CCCS if they are in trouble – an example of creative, joined-up working.

Alistair Matthews from PfEG made clear that education offers a unique opportunity to reach young people. It is an opportunity that we should not pass up given the benefits of laying the foundations of financial capability while children are at school. Initiatives such as Money Guidance will be better used if young people are taught to understand their use. It is therefore crucial that young people explore their attitudes to money, develop skills and have some hard knowledge. Alastair said that financial education is in the National Curriculum but it is not statutory.

Current initiatives include:

- Learning Money Matters: An FSA-supported initiative in secondary schools: any school that wants help can have it (2,800 schools currently receiving help to teach financial education/capability)
- What Money Means: Funded by HSBC, taking place in primary schools
- MyMoney: a Government funded initiative (HM Treasury and DWP).
- MyMoney Week taking place in July 2009
- Web-site www.useyourexpertise.org links experts to schools

Alastair described what should happen next:

- Clearer expectations from Government that all schools have financial education. This may require a statutory requirement.
- All current initiatives finish in 2011 – we need to have a national view on what happens after that.

- Personal finance education needs to be well linked to Money Guidance and other services so that young people are made aware.

A number of points were made in discussion:

- It was suggested that clouds do have silver linings. Whilst there is a lack of trust from the public currently, this can change if there is a very visible effort in the industry to gain back trust.
- A lot of people are cashing in ISAs to help them through hard economic times. This makes longer-term financial planning more of a challenge.
- Raising the profile of the need to consider your financial health, through TV and other media, is key to getting messages out there.
- It was highlighted that with regards to A & E services, organisations are already struggling with demand and that it is important to measure capacity before raising awareness of existing services and to share demand.
- We need to make it easy for people to keep on top of their finances – paying council tax over 10 months rather than 12 was pointed out as problematic as it does not fit in with how people budget and pay their bills.
- The point was made that we need to look at the change that's taken place in the last 20 – 30 years and recognise that individuals bear a greater responsibility for their own financial health.
- It was suggested that industry is still bad at explaining things to people. In the Citizen Advice IFA pilots, many people just wanted financial material interpreted for them.

Damian Hinds said that he had done a lot of research on sub-prime debt and that he had been working with the Centre for Social Justice on Breakthrough Britain. He felt it was important that the Financial Services Industry make a show of being caring and committed in these economic times. Damian set out some of the relevant

Conservative policies:

- They are committed to a National free debt advice service although not necessarily committed to Money Guidance.
- They are committed to financial capability in schools although only for 11-18s.
- They will be doing work on disclosure and cooling off periods.
- They might have two levels of the credit industry – high cost and mainstream.
- They believe the Social Fund needs looking at.

On remedial services, he thought most people in the Tory party would say that this is the sector that is currently best-served. On primary, he agreed that this was historically the “big black hole” but that there were questions around who Money Guidance was for. The Conservatives think the service should be targeted at people who most need it. On preventative, Damian did not necessarily agree that we need to “get the young” because there is the big role of what happens at home. Learning about current financial markets might not be useful when you are a kid because things change when you grow up. He thought it was important to consider how to get the message across to adults.

The meeting concluded with a discussion around what assumptions can be made today about what the home will provide, and that this might make financial education in primary schools still important. It was also noted that Money Guidance might also be useful for people with some money (low earners as well as the poorest, or most indebted), as they are vulnerable to the consequences of poor financial decision-making.