



Money Advice Service – Financial Capability Strategy for the UK

Consumer Finance Association Response to the Draft Strategy

Introduction

The Consumer Finance Association (CFA) is the principal trade association representing short-term (or 'payday') lending businesses operating in the UK. The CFA is pleased to have the opportunity to respond to the consultation on the Draft Financial Capability Strategy.

The CFA has been involved in the development of the strategy but continues to have some concerns about the coverage of and assumptions behind the strategy.

General Comments

The Money Advice Service (MAS) is a valuable organisation which has the potential to deliver a significant improvement in financial capability across the UK. However there are a number of fundamental issues with the draft strategy which need to be addressed if there is to be a significant improvement in financial capability.

The draft strategy addresses a number of priority areas but fails to address the important issue of managing money on a day-to-day basis. In the short-term this cannot be addressed by improving financial education for young people or increasing the supply of debt advice. The strategy needs to address how MAS can help the proportion of the population who may not need debt advice but do need some help to manage their finances through life events and changes in their finances.

The strategy also needs to address how help and information can best be provided to individuals and households who do not have stable finances, for example because they are employed on zero-hours contracts, rely on commission payments or are self-employed. Not everyone can rely on regular, consistent income and the strategy should acknowledge and address the issues which can be caused by unpredictable and irregular income.

A significant part of the draft strategy is focused on preparing for later life and retirement. However this focus is dominated by pensions. There are many different ways to prepare for retirement and saving in retirement is just one of these. The

focus on pensions appears to be based on the assumption that everyone can save in a pension. While auto-enrolment has undoubtedly been successful in opening up access to pension saving, there are individuals and households who either cannot or do not want to save in a pension. The strategy needs to take account of this.

The draft strategy refers to MAS providing unbiased financial help to consumers. MAS needs to ensure it offers guidance not opinion. It should be impartial about the merits of financial services products, firms and the consumers who use those products or firms. It should not make value judgements or favour a particular financial sector, for example by saying that a consumer should *never* take out a payday loan to pay a utility bill. This may not be the right option in all circumstances. For example, someone who has weighed up the consequences of not paying a utility bill or skipping on rent may well use short-term credit as a rational choice.

Responses to questions

Responses to consultation questions where the CFA has a view are set out below.

Consultation question 3: How far do you agree with the objectives of the Financial Capability Strategy?

One of the objectives proposed is ‘greater and more equitable access to financial products and services’. We do not believe this is an objective which is appropriate for a financial capability strategy. Aside from improving understanding and helping consumers to make informed choices, improving access to financial services is a matter for Government and the regulator. Indeed the FCA already has a statutory duty to have regard to ‘the ease with which consumers who may wish to use those services, including consumers in areas affected by social or economic deprivation, can access them’.¹

In addition, focusing on introducing simpler products risks more standard products that do not meet the needs of consumers and less competition in the market, which is unlikely to be good for consumers. Both Government and regulators have been talking for years about introducing simple products. But when a simple product is introduced, such as payday loans, which customers understand and value, regulators introduce new rules to make the product more complicated.

Consultation question 4: What is your view of the financially capable behaviour domains?

More priority needs to be given to managing money well on a day-to-day basis. Until individuals and households are able to do this, preparing for life ahead or building resilience is unlikely to be successful. The way in which the financially capable behaviour domains are presented in the draft strategy illustrates the overall prominence given to saving in a pension.

¹ Financial Service and Markets Act 2000 (as amended by the Financial Services Act 2012) 1E(2)(b)

In general, the draft strategy needs to recognise that not all consumers have 'traditional' lifestyles where they are regularly paid the same amount at the same time every week or month. The reality for many people, particularly those on zero-hours contracts, is that their income is unpredictable both in terms of amount and regularity. As such, managing money should be given more priority.

Consultation question 9: How far do you support the strategy's aim in respect of preparing for later life?

In respect of preparing for later life, the draft strategy focuses almost entirely on saving in a pension, particularly through auto-enrolment. While auto-enrolment has undoubtedly been a success in increasing the number of people saving in a pension, there are many different ways of preparing for later life and the strategy should acknowledge and address this.

As discussed above, not all consumers have 'traditional' lifestyles and those working for very small employers, with low or erratic earnings or who are self-employed may not have access to a pension saving vehicle. Others may actively choose other ways of preparing for later life, such as downsizing property or continuing to work for longer. There is no mention of alternative approaches in the draft strategy and this is a significant omission.

Consultation question 10: What is your view of the recommendations for action relating to preparing for later life? How could they be improved?

The recommendations for action relating to preparing for later life could be improved by including areas other than pension saving and acknowledging that not everyone has, or wants, access to a pension. The recommendations for action also need to look at how to engage consumers in thinking about later life and how they might manage their finances both when they are working and in retirement.

Consultation question 14: What is your view of the recommendations for action relating to people with financial difficulties? How could they be improved?

The recommendations for action relating to people in financial difficulties are focused almost entirely on people with 'problem debt'. People may be in financial difficulties for relatively short periods of time and may never reach a financial position classified as 'problem debt'. Consideration needs to be given to how to help those people who experience short periods of financial difficulties, this help may include budgeting tools or easy to use help or tools to negotiate short-term solutions with creditors.

Consultation question 16: What is your view of the recommendations for action relating to ease and accessibility of financial services? How could they be improved?

Actions need to be made on a non-judgemental basis. There can be no one-size fits all approach. Issues and potential solutions identified by MAS working with consumer organisations are unlikely to meet the needs of all consumers and may even result in more consumers being unable to access essential financial services. Recommendations for action around ease and accessibility of financial services should take account of:

- The products and services which consumers themselves want or need, not the products and services that commentators think consumers should have;
- The increasing number of consumers who do not have 'traditional' working lives and who have to manage inconsistent and unpredictable finances;
- The difficulty in obtaining, and cost of, advice; and
- The implications for consumers of getting it wrong, for example in reducing access to credit and increasing the number of consumers using unlicensed lenders as a result.

Conclusion

The draft strategy should:

- Prioritise managing money on a day-to-day basis. As drafted currently the draft strategy jumps from children and young people to financial difficulties;
- Recognise that increasing numbers of consumers do not have 'traditional' lifestyles and have to manage additional financial pressures such as unpredictable income; and
- Shift the focus away from pension saving and focus more on how to get individuals and households thinking about their finances both for the present time and planning for the future.

The CFA and members have unique insights into customers who have non-traditional lifestyles and finances and would be happy to contribute to the development of the financial capability strategy going forward.

Consumer Finance Association, October 2014

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