

# Consultation Response

## Financial Capability Strategy for the UK

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The consultation seeks views on the development of the Financial Capability Strategy, which has been co-ordinated and led by the Money Advice Service, the statutory body for financial capability.

## **Key points and recommendations**

- We welcome the publication of the draft Strategy and broadly support the priorities for action and recommendations for action.
- We strongly support the recognition of the importance of ease and accessibility of financial products and services.
- We would welcome more detail on how the strategy will be coordinated, reviewed and managed. We hope that the Money Advice Service will build on the collaborative approach it has taken in developing the strategy, to ensure that the views of smaller organisations are heard.
- The Framework is a helpful way of conceptualising financial capability and the various influences on it. We particularly welcome the recognition that capability is affected by external influences.
- Some measurement of financial wellbeing may be helpful, but as part of increasing our understanding of financial capability rather than as a definitive measure of the success of the strategy. An individual may be highly capable, but unable to improve their wellbeing because of external circumstances.
- We have concerns about the 'bottom rung' of the wellbeing staircase which is too narrowly focussed on people with debt problems. We suggest that it is relabelled as covering people in 'debt or deprivation'.
- The interaction between the broad objectives and the priorities for action is unclear. We assume that the priorities will have a shorter-term focus and look forward to hearing more about how they will be reviewed and refreshed.
- We strongly welcome the inclusion of priorities for action to meet the needs of older people in retirement.
- We do not agree that 'financial difficulties' are necessarily synonymous with 'problem debt' and suggest that this priority for action is relabelled as 'people with problem debt'.
- We hope that the Money Advice Service will broaden its focus on ease and accessibility to look at how issues of equality and diversity in the provision of financial capability initiatives can be addressed.
- We strongly support the development of evaluation methods, but given funding constraints, it may be sensible to have a two tier approach e.g. basic data collection for projects which do not have the funding for a full independent evaluation with further options for those that do.

## **Introduction**

We welcome the publication of the draft strategy and the opportunity to comment on the proposals. We particularly welcome the inclusion of a strand of work around older people, as we know that many people in retirement express a real thirst for information and guidance on financial issues. We have found the collaborative approach to strategy development helpful and have been pleased to chair one of the working groups.

Overall we find much to agree with within the strategy, in particular, we strongly support the recognition of the importance of ease and accessibility of financial products and services. In our experience, those who are working at the front line with consumers have an invaluable role to play in sharing expertise around consumer need and bringing to light issues in product design and sales. This can help firms and, if necessary, regulators take steps to ensure that products and services do not create barriers to financial capability and instead enable it. This is especially important in areas where consumer demand is weak, an effect which has been noted in many parts of financial services. We also broadly support the priorities for action and recommendations for action.

## **Strategy development and governance**

Part of the strength of the draft strategy is its breadth, which should in theory allow a wide range of organisations with an interest in financial capability to participate. However, this also creates a challenge for evaluation of the strategy itself. We would welcome more detail on how the strategy will be coordinated, reviewed and managed. Whilst this may be a question for the next iteration of the strategy, it will be essential to the effectiveness of the initiative - we need to know how working on financial capability through the strategy will be different and what more will be achieved than the current loose affiliations that exist.

We would suggest that Money Advice Service seeks to build on the more collaborative approach it has taken in developing the strategy as it continues with strategy development and implementation. It will be especially important that voices from small organisations, and those who may be trusted messengers but for whom financial capability is part of a holistic offer rather than a focus, are heard.

## **Responses to questions**

### **1. What time period should the financial capability strategy cover?**

Five-year and 10-year time horizons seem realistic, but a more fundamental question is the governance structure for the strategy and how the objectives and the priorities for

action interact. The priorities in some areas are quite focussed on particular issues and will need refreshing regularly (as the strategy acknowledges). We would find it helpful to hear more about how the Money Advice Service sees this happening, and how this process will interact with your Business Plan.

## **2. What is your view of the Financial Capability Framework?**

The Framework is a helpful way of conceptualising financial capability and the various influences on it. We particularly welcome the recognition that capability is affected by external influences, and the importance of enablers and inhibitors.

The Framework highlights how fluid and dynamic capability is likely to be – for example someone may have high capability in relation to some domains, at some points in time, but not at others. People may often experience difficulties following a bereavement, for example. It is important that this is reflected in the design of the evaluation programme and in the measurement of success.

It is also extremely important that the strategy takes into account good practice in relation to equality and diversity, for example reflecting the varied needs of different groups of people. We think the Strategy could be strengthened by reviewing its relevance and accessibility for these varied groups, particularly those that are normally excluded from financial services. There needs to be a strong focus on the needs of groups with low income or low savings, as they may find it difficult to get information and guidance elsewhere. We hope that the Money Advice Service will work in partnership with specialist organisations to meet the needs of excluded groups.

## **3. How far do you agree with the objectives of the Financial Capability Strategy?**

We support the objectives.

## **4. What is your view of the financially capable behaviour domains?**

The domains work reasonably well at population level, but it will be important to remember that they will not all apply equally to everybody at every stage of life. Some will simply not be relevant (e.g. tackling problem debt, or saving for the future if you have no disposable income).

## **5. How important is it to track financial wellbeing to help measure the impact of the Financial Capability Strategy?**

We have concerns about the 'bottom rung' of the staircase which implies that the worst possible position is to have unhealthy debt problems. It is widely recognised that living standards are about much more than income: they are also about much more than debt.

Age UK's research shows that in general older people continue to resist taking on credit, however poor their financial situation, preferring instead to go without and in some cases, live in severe material deprivation. The Money Advice Service should resist defining people with the lowest financial wellbeing as 'debtors' as it will distort the strategy's approach to supporting people at the bottom of the ladder. It will also penalise those who would rather live in severe material deprivation than take out debt (and indeed it may be that those in the worst state are not able to access credit). We suggest that this category is relabelled as 'Being in debt or deprivation'. This would also be consistent with official statistics which provide indicators of material deprivation (through the Family Resources Survey).

We think it may also be useful to explore the relationship between financial capability and financial wellbeing further. As noted by the strategy, external factors will control the extent to which increased financial capability can allow individuals to improve their wellbeing. People may also make meaningful improvements within the groups identified in the financial wellbeing staircase without completely changing the band they are in – for example someone may increase their retirement saving to the maximum extent possible for them, resulting in real improvements in their retirement income, but still not to a level which could be described as 'providing adequately for their future lifestyle'. However if due to increased financial capability it should still be considered a success. It would increase the strength of the argument for financial capability if we can demonstrate that it has an impact beyond capability itself and it may help us to better target interventions if we understand the potential and the limits of financial capability. In summary some measurement may be helpful, but considered as part of increasing our understanding of financial capability rather than as a definitive measure of success of the strategy.

## **6. What are your views on the priorities for action?**

### **12. What is your view of the recommendations for action relating to older people?**

The answer to question 6 will depend on what action is envisaged for each priority, and how often they will be reviewed. We would be concerned if these are regarded as the only priorities for the whole period of the Strategy – they will need to be reviewed more frequently. Perhaps the answer could be to split the priorities into longer-term, business as usual tasks – such as income maximisation – and shorter-term, more targeted 'campaigns' such as support around funding long-term care when the cap on care costs is introduced. An area of concern for us at present, for example, is the danger of scams

targeting people who are drawing their defined contribution pension when the rules change in April 2015. We look forward to hearing more about how shorter-term priorities will be set.

We strongly welcome the focus in the priorities for older people on ensuring that services are accessible and easy to use.

**13. What is your view of the recommendations for action relating to people with financial difficulties?**

We are concerned that ‘financial difficulties’ appear to be synonymous with ‘problem debt’. Problem debt is a huge problem, including for a minority of older people, so we agree it should be a priority area, but as stated above ‘financial difficulties’ could include living in material deprivation. We think it would be clearer just to re-label this as ‘people with problem debt’.

**14. What is your view of the recommendations for action relating to the ease and accessibility of financial services?**

We are pleased that the Money Advice Service is treating this as a priority for action and would be happy to assist with the work proposed. This would be a good opportunity to ensure that the Service is meeting the needs of excluded groups, as part of a commitment to equality and diversity. The reason why ‘ease’ problems are not often reported may well be because they tend to affect excluded groups, who may be under-researched, and who may end up using unregulated products. These could be products for short-term savings rather than credit products – the collapse of the Christmas savings club Farepak exposed the extent to which some activities happen ‘under the radar’.

While we fully agree that the Money Advice Service should continue to develop innovative on-line tools, it is crucial that it is also committed to facilitating access for those who are not online, and we hope that the business plan will clarify how this will be achieved.

Although we agree that the Money Advice Service should facilitate access to independent financial advice, there is a delicate balance to be achieved between facilitation and promotion – which is not the role of an independent agency. We hope that the Money Advice Service will work with the advice sector to ensure that barriers to access, such as lack of clarity around costs, are reduced.

## **18. What is your view of the recommendations for action relating to influencing social norms?**

We support this aim, however it is important to recognise that desirable norms may vary according to lifestage and circumstances, particularly when it comes to spending retirement savings safely. As one participant in Age UK research put it, 'Most of us were brought up to save for a rainy day – now it's starting to drizzle – most of us have been careful and saved and it's difficult to break the habit'. Guarding against longevity without underspending (e.g. over-economising on heating, which could be dangerous for people as they age and their physiology changes) could be an increasing issue following recent liberalisation of private pensions.

## **20. What is your view of the recommendations for action relating to evidence and evaluation?**

We strongly support the development of evidence and evaluation methods, which have the potential to significantly improve future interventions by increasing our understanding of what works. Much of how well this potential is realised will depend on the usability of the system. It will need to be user friendly for busy advisers who may have limited IT access or ability (and therefore needs to work on software that everyone will have access to, such as Excel rather than a specific programme). Time will be limited and so it will be important to identify what basic information is essential. We would support efforts to make comparisons across different relevant interventions as meaningful as possible, but this would require a move to encourage providers to record the same basic data. Evaluation methods should keep in mind that some interventions may be part of a wider programme which is not entirely focused on financial capability and could therefore have competing data capture requirements.

Given funding constraints, it may be sensible to have a two tier approach to evaluation e.g. basic data collection for projects which do not have the funding for a full independent evaluation but options for those that do. Given the need for evaluation and the funding constraints on many organisations it may also be useful for the Money Advice Service or other interested organisations to express an interest specifically in evaluating certain indicators and considering providing or conducting the evaluation themselves. This could be especially helpful for projects which are holistic and not entirely focused on financial capability but may offer useful lessons. It would also be useful to understand how the lessons learned from the evaluations will be shared to ensure everyone benefits from the improvements.

It might also be useful to relate the indicators to the different domains, as it seems that the evidence links some indicators to change in certain domains but not others, for example there seems to be evidence that problem solving is relevant to investing in financial markets (building resilience/preparing for life ahead), but it is less clear whether it is as relevant to managing money well day to day.

**21. How would your organisation like to be involved in further development of the Strategy?**

**22. What role do you see your organisation playing in the implementation of the Strategy?**

We have welcomed the opportunity to be involved with the development of the Strategy so far and have been pleased to host discussion events with older people for the Money Advice Service. We are keenly aware of the importance of financial capability for older people and, subject to the outcome of the consultation and the Money Advice Service business plan, would be happy to be involved in future.