



Association of British Insurers

Financial capability strategy for the UK

Response to the draft strategy from Association of British Insurers

October 2014

We welcome the opportunity to respond to the draft strategy on financial capability for the UK

Being able to manage money and make informed financial decisions is a key skill and we support a joined up approach to promoting, supporting and measuring financial capability in the UK.

One of the most significant policy developments in our sector in recent years – the 2014 Budget pension reforms – means that focusing on financial capability is more important than ever. People approaching retirement will now face many more complex choices than ever before. Whilst guidance, advice and information are all essential elements for making these reforms work, we also believe higher levels of financial capability have a very important role to play.

Q1 Increasing financial capability is no short term objective however, without some clear timeframes, it may be difficult to focus effort and measure progress. For the purposes of this strategy, a focus on 5 and 10 years would seem appropriate for the challenge and reflect the long term nature of how to achieve change.

Q2. The Financial Capability framework seems sensible. We support the way the framework identifies that attitudes and motivation are key drivers. The framework should be a useful tool for considering which interventions may be the most effective.

Q3. The objectives for the strategy are sound and sensibly focus on both the individual drivers and the system within which people have to operate.

Q4. Identifying the four capability domains helps break down the elements of financial capability further – and for the purposes of a strategy which will need to drive practical actions, these domains seem sensible.

Q5 The financial wellbeing ‘staircase’ makes sense and we understand the link between financial capability and financial wellbeing. However, it is important that this remains a financial capability strategy rather than a strategy that becomes focused on how to improve financial wellbeing. The strategy identifies financial wellbeing as one way to measure capability, but it should not be the only or dominant way to measure this. We would be very supportive of other ways to measure whether people are able to make informed decisions without linking it to whether they are ‘climbing the wellbeing staircase’.



Association of British Insurers

Q6 We agree with the priorities for action although 'influencing social norms' feels very vague and hard to define compared to other areas which are more specifically targeted at groups of people (children and young people for example) or lifestage (retirement etc).

Q7. We support the strategy's overall aim to ensure children and young people continuously build their financial capability, but our concerns about linking this too quickly to levels of financial wellbeing are evident in the wording of the aim. We are not convinced this is necessary here.

We are also pleased the strategy reflects there has been significant work done in this area already and the strategy should build on this.

Q8 The recommendations for action for children and young people are sensible and rightly focus on collaboration. We also support the case for considering adding financial capability to the primary curriculum.

Q9 We would prefer the aim of the section on later life to focus on people having the capability to understand the risks and challenges they face as they age, grasp the choices and decisions they need to make and feel confident in making those decisions and the impacts they may have. The current aim focuses on making ends meet and resilience which may well be outcomes from being financially capable but there could be others. We believe the ability to make informed decisions at a key lifestage within a complex financial landscape is the goal here.

Q10 We agree with the priorities for action. Many stakeholders are already talking about how to build on auto enrolment and it is important that the actions for the strategy build on this and not duplicate. It may be that research is needed, but we would first recommend taking time to find existing research and evidence, for example from international experience, on effective strategies for overcoming the attitudinal and motivational barriers to long term planning and saving.

We also believe there is a missing element within these actions. The Guidance process is likely to provide a basic level of help for people transitioning to retirement. We firmly believe the strategy should focus collaborative efforts, particularly with the FCA, on delivering affordable, simplified advice. There is an advice gap and we must be realistic that very few people will pay for full blown independent advice. The challenge is how to provide more than the Guidance Guarantee but less than full advice to help people with these difficult and complex decisions. This is where we would like this element of the strategy to focus its efforts.

Q11 We support the aim regarding older people in retirement

Q12 We support the practical action outlined for older people and are pleased to see the recommendation to build on the work done by AgeUK.

Q13. We support the aim for people with financial difficulties



Association of British Insurers

Q14. We support the collaborative approach and actions proposed for dealing with financial difficulties

Q15 We support the aim of improving access and the ease of use of FS products.

Q16 We support the priorities identified and as insurers are already trying to work towards this though our commitment to developing a framework for simple products.

We would also highlight the importance of the advice issue raised in our answer to Q10. There needs to be a new advice solution for people.

Q17 The aim of challenging social norms is very broad and ambitious. This are feels very underdeveloped although we do understand the important point that social norms do much to drive behaviour and decisions.

Q18 Reflecting our concern about the aim around social norms, the recommendations for action also seem rather vague. We would be concerned about this section of the strategy taking up too much effort when there are very practical actions identified elsewhere. Having said that – we support the strategy taking a long view – over a decade, and this is a period of time where it may be possible to challenge social norms. However we would want to see a more robust assessment of the best ways of doing this and where the focus should start for practical action.

Q19 We very much support evaluation and support the aim for this section

Q20 We support the recommendations for action – focused on being collaborative, sharing best practice.

Q21 The ABI would very much like to remain engaged with the work to deliver the strategy.

Q22 The ABI will want to focus its energies in specific areas for example around planning for retirement and the development of new forms of advice

About the ABI

With more than 250 members, accounting for 90% of the UK insurance market, the Association of British Insurers represents the UK's general and long-term savings and life insurance industry.

The UK insurance industry is the largest in Europe and the third largest in the world. It plays an essential part in the UK's economic strength, managing investments of £1.8 trillion (equivalent to 25% of the UK's total net worth) and paying nearly £12bn in taxes to the Government.