

05 November 2014

## **IMA RESPONSE TO MAS FINANCIAL CAPABILITY STRATEGY FOR THE UK**

The IMA represents the asset management industry operating in the UK. Our members include independent asset managers, the investment arms of retail banks, life insurers and investment banks, and the managers of occupational pension schemes. They are responsible for the management of around £5 trillion of assets, which are invested on behalf of clients globally. These include authorised investment funds, institutional funds (e.g. pensions and life funds), private client accounts, and a wide range of pooled investment vehicles. In particular, our members represent 99% of funds under management in UK authorised investment funds.

Our members support MAS's plans to work with partners on a range of tactics to improve the financial capability and well-being of UK savers and investors. They would like to contribute and help MAS to build on the momentum initiated by the strategy. Below, are our answers to your questions.

### **CONSULTATION QUESTIONS:**

#### **1: What time period should the Financial Capability Strategy cover?**

This has to be a long-term game, so five years to start, but then ongoing periods of 3 to 5 years based on reviews of progress per target group.

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

It is very helpful to have the components of FC, and the interaction between them, depicted so clearly and a means to position and assess your recommendations over time.

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

They are good. The key outcome is "to manage money successfully." We like the concept of enablers and are pleased to see that they refer to the value of advice, which is especially important in long term planning where rewards and risk need to be balanced regularly to suit individual needs, and where professional advisers can bring a necessary discipline to the process.

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

The four behaviour domains cover all the main aspects of personal finance well.

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

"Our objective should be to improve financial capability so that people can improve their wellbeing position as much as their means and pressures allow." We agree that financial wellbeing is the bottom line. How much money you have matters, but how comfortable you are in managing your money to cover your daily needs now and during your later life, complete with the inevitable ups and downs that life brings, is also very important. We look forward to more research to assess progress and the potential value to the economy of greater financial capability – in particular, measures linked to helping those at the 'making ends meet' level to become more 'resilient'.

**6: What are your views on the priorities for action that have been identified as a focus for the Strategy? Should any additional areas be added?**

The seven priorities are all sensible. At a high level, they give different “partners” in the FCS scope to focus on specifics and add value accordingly, e.g. product providers and advisers on “access”. The ‘evidence and evaluation’ priority should help to ensure resources are allocated to fill gaps and target areas of greatest need.

**7: How far do you support the Strategy’s aim for children and young people?**

Very supportive.

**8: What is your view of the recommendations for action relating to children and young people? How could they be improved?**

It is a carefully considered and substantiated approach encouraging ongoing vigilance by parents, teachers and other youth leaders. The emphasis on early years training and on parental/carer input is good. The importance of learning in practice is good, especially when the practice takes place just before the need to implement for real. In essence, it is similar to taking a driving theory test shortly before your first time behind the wheel of a car.

**9: How far do you support the Strategy’s aim in respect of preparing for later life?**

Very supportive.

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

IMA firms in the DC pensions market, with trustees and other key partners aim to engender positive outcomes for their end-customers and they realise that financially capable consumers will make this goal easier to achieve. The onus on individual choice, in particular, the removal of annuities as the effective default, changes the landscape. Solution-driven product development, good customer communications and strong investment governance are vital factors to the success of their aims. For example, some IMA firms are considering products, encompassing the accumulation and decumulation phases, so as to ease our financial planning journeys from saving and investing out of our earnings to generating an income for our needs when we have retired.

**11: How far do you support the Strategy’s aims for older people?**

Very supportive.

**12: What is your view of the recommendations for action relating to older people? How could they be improved?**

Good.

**13: How far do you support the Strategy’s aims for people with financial difficulties?**

Very supportive.

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

Good.

**15: How far do you support the Strategy's aims in relation to the ease and accessibility of products and services?**

Very supportive, but regulation and all that it entails needs to be taken into account.

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

The clarity of costs and charges and the use of pounds and pence instead of percentages apply as much to investment products as to credit.

In the investment funds market, the essential information consumers need to help them make a decision is included in Key Investor Information Documents rather than terms and conditions.

Independent financial advice is a valued service for investors and we are pleased to see this highlighted in your recommendations, though we would like more analysis on its accessibility for those with smaller pots, particularly as they near retirement.

Online tools are complementary to personal advice, but they are also likely to be an alternative - particularly for those with fewer assets, to whom personal advice may appear relatively expensive. This recommendation seems to be addressed at industry – develop more/better online tools. It must also be addressed to regulators as: Improve clarity of regulation to enable product providers and others to develop better interactive on-line financial self-assessment tools and decision aids without the risk of regulatory hindsight mis-selling charges in the future.

**17: How far do you support the Strategy's aims in relation to influencing social norms?**

Very supportive.

**18: What is your view of the recommendations for action relating to influencing social norms? How could they be improved?**

Good and appropriately your recommendations are given holistically to the nation and its key influencers – from teachers and celebrities, to advertisers and policy makers.

**19: How far do you support the Strategy's aims relating to evidence and evaluation?**

Very supportive.

**20: What is your view of the recommendations for action relating to evidence and evaluation? How could they be improved?**

They are good. The rigour involved will not always be easy to apply in low cost, charitable initiatives, but this could be alleviated if MAS can be proactive in partnering researchers with doers. It would be interesting to know the extent of the resource MAS is proposing to develop here. We also suggest that MAS could quality mark resources which work well for their target market.

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

IMA's stated purpose is to ensure that investment managers, whose products and services are a means for people to save and invest, are in the best possible position to: build people's resilience to financial adversity; help people achieve their financial aspirations; and, enable people to maintain a decent standard of living as they grow older: in short, to contribute to people's 'financial well-being.'

The IMA will continue to support the development and implementation of the Strategy by engaging its member companies and encouraging them to take account of and influence people's financial capability and to evaluate the effectiveness of their endeavours.

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

We will help MAS and other providers of financial information for consumers to ensure their explanations on investing in funds, including via ISAs or pensions, are clear and accurate. We will consider the merits of spearheading the development of a common language for consumers. IMA has already developed a glossary within its consumer website, [Investinginfunds.info](http://Investinginfunds.info). We could build on this and encourage providers and other information providers to use it.

If you would like to discuss any aspects of these answers, please contact:

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