



MAS's Financial Capability Strategy for the UK

Finance & Leasing Association (FLA)

Introduction

The Finance & Leasing Association (FLA) is the leading trade association in the consumer credit, motor and asset finance sectors in the UK. Our members include banks, building societies and independent finance firms who offer credit services to a wide range of customers. In 2013, FLA members provided £62 billion of consumer credit, almost a third of the UK total. This included credit and store cards, unsecured loans, store credit, second charge mortgages and hire purchase agreements. FLA members also provide almost £27.5 billion of motor finance, including funding almost three quarters of all private new car sales.

We welcome the opportunity to respond to MAS's Financial Capability Strategy for the UK. The FLA has a direct interest in the Financial Capability of the UK as well the other strands of work MAS does. FLA members will also be paying for MAS services through their FCA authorisation fees and we therefore have an added interest in shaping MAS's work.

Some of the questions posed in this consultation can probably best be answered by consumer groups. In what follows, we deal with the questions particularly from a financial services sector perspective:

1. What time period should the Financial Capability Strategy cover?

We agree that the Financial Capability Strategy should cover a substantial period of time. This should cover at least the next five years. But realistically changing the culture and capabilities is likely to take several generations. Ultimately the time period for this review should be governed by how long there is a core demand for assistance around financial capability. We believe that the critical success factor to this strategy is regular reviews to ensure it is relevant, and remains on the agenda of key stakeholders.

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

We agree that Financial Capability is complex and made up of an array of factors. These include internal factors - such as ability (skills and knowledge) and mind-set (attitudes and motivation) – as well as external forces such as the accessibility of financial services. We also agree that external influences, both positive and negative, have a powerful effect. But at the end of the day financial education is key. And we believe this should start at Primary school and continue into secondary education. This should be co-ordinated by MAS working alongside The Department for Education to help achieve this. Financial services may also have a complimentary role to play, for example, some firms are involved in local educational programmes.

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

We agree that both the individual and the system as a whole need to be addressed as part of the strategy. At an individual level, this will require more work on up-skilling

the general population around financial capability issues and also more psychological and behavioural work to help consumers make better economic choices. On the system, both MAS and Government have a role to play in providing good financial education programmes and information as well as support. Financial services also have a role to play in the products provided and the way information is articulated. The principle of 'clear, fair and not misleading' is already embedded in the FCA's regulatory regime.

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

Theoretically the behaviour domains make sense. However, there are more fundamental structural problems and issues that need addressing first before many can afford home ownership and to save for the future etc. These include house prices and shortages, low wages etc. The model won't work properly for many until these fundamental issues have been considered and addressed.

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

It's important to measure financial wellbeing in order to, at the very least, track the percentage of the population in each category and how this is changing over time. Ideally one would hope and expect a movement up the 'wellbeing ladder' as Financial Capability improves over time. But as suggested in response to Q4 above, there are other important factors at play.

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?

We agree that children and young people should be a priority. The earlier this starts the better and ideally in primary school. After this more vulnerable groups – such as those in financial difficulty – need prioritising. At a more general level influencing social norms would be a good way of trying to change behaviours and norms.

7. How far do you support the Strategy's aim for children and young people?

We think this is crucial and we fully support this strategy. However, children will be heavily influenced by their parents and their environment. So any strategy will also need to involve parents and their behaviours.

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

We agree with all the key recommendations made e.g. learning needs to start at a much younger age (ideally at Primary school) etc. However, as parents are key influencers they also need influencing and equipping to give the right financial capability messages. As some of the examples used in the consultation document shows, this isn't always the case. So one of the obvious gaps in the strategy is the need to address external/parental influences.

9. How far do you support the Strategy's aim in respect of preparing for later life?

Whilst highlighting the problem we are not sure that the strategy actually addresses the problem. This area needs much more thought and development.

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

There is a role here for MAS as well as the Government. The key message needs to be that the State pension is unlikely to be enough to provide for more than a very basic lifestyle in retirement. Therefore individuals need to be encouraged to make extra provision during their working lives.

11. How far do you support the Strategy's aims for older people?

This is a very simplistic analysis. Those in retirement face different and sometimes expensive challenges e.g. the cost of nursing care. More needs to be done by MAS with the Government in this area. There may also be a role here for the insurance industry and some kind of private/public partnership.

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

It is fine as far as it goes but more needs to be done. Refer to the response to Q11 above. It should be about more than just support for older people.

13. How far do you support the Strategy's aims for people with financial difficulties?

We agree that people do not seek debt advice or assistance soon enough. The strategy should include trying to get more people to seek debt advice early on when people are already experiencing financial difficulty. We also believe people in vulnerable positions should receive a stronger focus in this strategy (i.e. bereavement, illness, divorce etc.).

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

We think early engagement is critical and this is an area which MAS should be concentrating on. It's also important that there is a balance of responsibilities. By this we mean that consumers are aware of their own responsibilities and that it's not a one way process. This will include educating those with financial difficulties to take action and advice early on in the process.

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

Creditors already provide the relevant information and products in a broad variety of ways (phone, internet, in-store etc.). But there is always room for improvement and therefore the industry is working with the FCA in the area of 'smarter disclosure'. More general issues around 'access to credit' will depend on FCA 'affordability'

criteria and the importance of responsible lending as well as consumers past credit histories (accessed via credit scoring and Credit Reference Agency records), including creditworthiness.

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 financial services industry is already working with the FCA on 'smarter disclosure'. Terms and conditions have been made more accessible over the years and key financial products already have 'key facts'. The FCA is also already focussing on 'Behavioural Economics'. So both the regulator and industry are making in-roads in this area of greater clarity and transparency.

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

We agree with this strategy. How this is done though isn't quite as straightforward and is likely to take several generations and co-ordinated work across the piece.

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

As touched upon above, it's probably not this simplistic. This is a long-term goal which will require Government working with MAS and the advice agencies and other key stakeholders. Again much of this goes back to education and particularly financial education in the early years. This will also take a number of generations to completely feed through.

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

No comment.

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

No comment/Not one for us.

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

We would be more than happy to continue commenting on MAS proposals. We are also happy to continue working with members to enact the strategy from a lender's perspective.

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

FLA's role is likely to be a facilitative one with our members. However, we would be interested to know what MAS is planning on doing in order to ensue buy-in and ownership of these objectives.

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