Financial Capability Strategy for the UK

The Draft Strategy

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This strategy is about financial capability.
If the Strategy is successful in improving financial capability, the potential, expected and desirable consequence will be an overall increase in the UK's financial wellbeing, with substantial benefits for individuals, families, communities, government, industry and society as a whole.

This is a draft Strategy. **We welcome your views.**

Overview

Financial capability gives people the power to make the most of their money and improve their lives. This Strategy aims to increase financial capability so people can make well informed decisions and take positive financial action to achieve the best possible outcomes for themselves and their families.

Many individuals have suffered greatly through the recent recession, and the nation as a whole has faced some great strains. Had financial capability been stronger, there is no doubt that the pain and strain would be less.

The change required to achieve a financially capable nation is no small task. Currently, 50% of people don't make a personal budget.[1] As many as 84% of UK adults do not read the full terms and conditions when taking out financial products.[2] One in six people struggle to identify the balance on a bank statement.[3] 48% of adults across the UK admit to falling into debt as a direct result of their social lives.[4] Without strong financial capability, even people with financial resources make uninformed decisions which put them at risk of real hardship in the event of financial shocks or changes in circumstances.

There are substantial benefits for individuals with strong financial capability. People who manage their money better tend to be more satisfied with their life and are 15% less likely to suffer health problems related to anxiety or depression.[5] The consequences for society, for the financial services industry and the UK economy are often substantial. **A nation with much stronger financial capability will be a social credit to any government and require less central support in increasing economic resilience and growth**.

The way to make a significant change in real-world financial capability is to equip the people of the UK with the **skills, knowledge, attitudes and motivations** to act in a financially capable way, and to **influence the external factors that support or undermine financial capability.**

This document outlines the emerging Financial Capability Strategy for the UK and invites your views. More detailed evidence and information about how the Strategy has been developed is available at **fincap.org.uk**. Following the consultation period, your inputs will be used to refine the Strategy, crystallise the specific programmes of work, and establish the responsibilities and key milestones that will deliver a substantially more financially capable nation.

As the statutory body for financial capability the Money Advice Service has a particular responsibility for helping people understand and make the most of their money, both directly and through facilitating the works of others, and for enabling people to access high-quality debt advice when things go wrong. The Service has also played an active role in co-ordinating and leading the development of this draft Strategy.

1 Financial Capability Tracker Survey, Money Advice Service 2013/14
2 Research conducted by One Poll for Money Advice Service August 2014 (sample: 3,000 UK adults)
3 The Financial Capability of the UK, Money Advice Service 2013
4 Research conducted by One Poll for Money Advice Service, June 2014 (sample:3,000 UK adults)
5 Financial Capability and Wellbeing: evidence from the BHPS', Financial Services Authority 2009

Development of this emerging Strategy

This Strategy document has been developed with input from many stakeholders including academics, consumer organisations, industry representatives and front-line advice providers. It draws on insight from around the globe on how to address financial capability. It is intended to build on the many programmes and activities to improve financial capability that already exist across the UK. These programmes are hugely important and many change people's lives. Together, they add up to a substantial body of resource dedicated to improving financial capability.

However, the scale of the challenge and the change the Strategy is seeking to achieve necessitates a step-change in the level of activity and a co-ordinated approach across many sectors. It will require on-going engagement in the third sector, the financial services industry, Government and the relevant regulators, expanded attention in schools and colleges and in the home. New engagement will also be needed with a range of other organisations with which people have significant financial relationships, such as the housing sector and utility companies.

There is a need for greater alignment, focussed on key, agreed priorities and a stronger focus on best practice based on evidence of what does and does not work. The Strategy will help to identify the right level and type of investment in improving financial capability, mindful of where funding or activity gaps exist currently. The Strategy will also provide a framework and baseline for monitoring progress in increasing financial capability.

Action to deliver the Strategy needs to be a sustained, co-ordinated effort over a substantial period of time. Over the next five years there is an opportunity to accelerate progress by aligning and maximising the value from programmes that are already underway or planned, through focussing on key priorities and using rigorous evaluation to drive up the scale and effectiveness of interventions. It is important also to think about a longer time horizon for effecting the significant change required to prepare the next generation for financial challenges far better than has been done in the past.

Consultation question 1: What time period should the Financial Capability Strategy cover?

Developments in financial capability

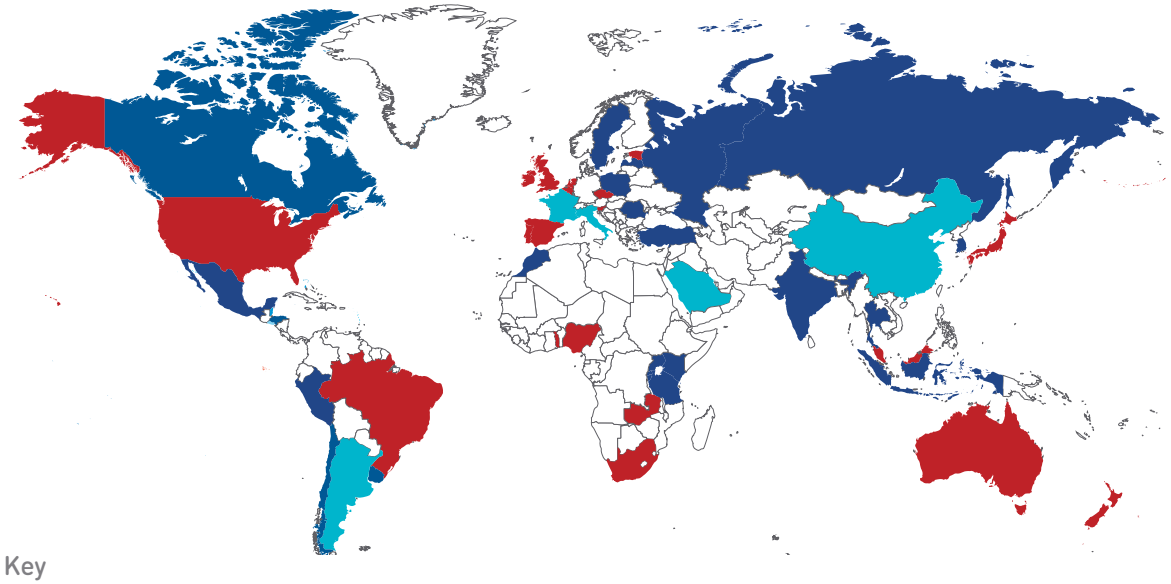
The UK's first Financial Capability Strategy was developed and published in 2006 with an intended five-year lifespan. Since then, much work has been done to develop understanding of financial capability, putting some crucial building blocks in place and starting to build learning about what works.

Progress to date includes developments at a UK-wide level and hundreds of local programmes that do excellent work to address financial capability have been implemented. This theme of the need to combine central and local effort effectively remains a theme of the new Strategy. A snapshot of financial capability activity across the UK today would include:

- Tailored money management training courses for financially excluded people including care leavers, ex-offenders and single mothers
- Crisis debt support that helps people address immediate problems and, in some cases, also helps them develop the skills, habits and confidence to manage money better in future
- Money skills programmes for children and young people, run by the third sector and partnerships with several high street banks
- Financial education in schools across Northern Ireland, Scotland, Wales and, from this September, on the secondary national curriculum in England too
- Free, impartial advice delivered online, by phone and face to face by the Money Advice Service.

There have also been significant development across the globe. Financial capability is now recognised as important by the G20 and the OECD. Many countries around the world have implemented their own national strategies with dedicated programmes to help their populations get ahead financially, an ambition that has been brought into sharp focus in the aftermath of the global economic crisis.

National strategies for financial education/capability as of September 2013:



Key

- National strategies implemented
- Advance state of design
- National strategies being considered

Source: Advancing Strategies for Financial Education Russia's G20 Presidency and the OECD

Financial capability and its impact

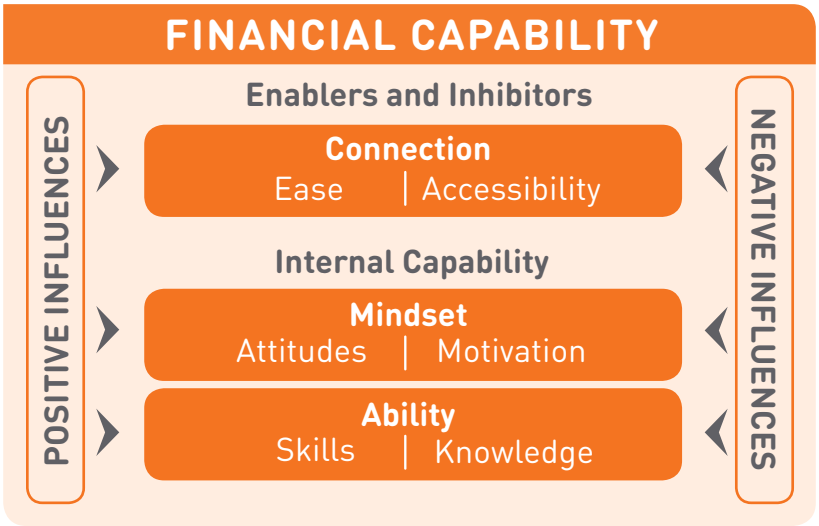
Financial capability is an important and evolving discipline. Building on existing activity and evidence from within the UK and across the world has enabled the development of the existing theory and the creation of a practical and complete model about what makes individuals financially capable.

The evidence base shows that financial capability encompasses financial knowledge, skills, attitudes and motivations.[6] Applying this understanding to research about people's money behaviour this insight has been distilled through the Strategy process into a model that helps to explain what happens to real people in the real world.[7] This is the **UK Financial Capability Framework**.

The UK Financial Capability Framework

Financial capability includes internal factors - ability and mindset - as well as external forces such as the accessibility of financial services and the ease with which consumers can interact with them. A growing body of research shows that attitudes and motivation are more important for financial capability than skills and knowledge.[8] The research also demonstrates the powerful effect of a range of external influences, both positive and negative. The schematic below encapsulates these factors and shows that an individual's real financial capability is a complex interaction of them all. The Strategy will therefore need to have an impact in all of these areas.

The UK Financial Capability Framework:



Consultation question 2: What is your view of the Financial Capability Framework?

6 The Financial Capability of the UK, Money Advice Service 2014; Money Lives, Money Advice Service 2014; MINDSPACE: Influencing Behaviour through Public Policy, Dolan et al 2010
7 Money Lives, Money Advice Service 2013
8 The Financial Capability of the UK, Money Advice Service 2014; MINDSPACE: Influencing Behaviour through Public Policy, Dolan et al 2010

The impact of the range of influences that contribute to overall financial capability can be illustrated through some personal stories.

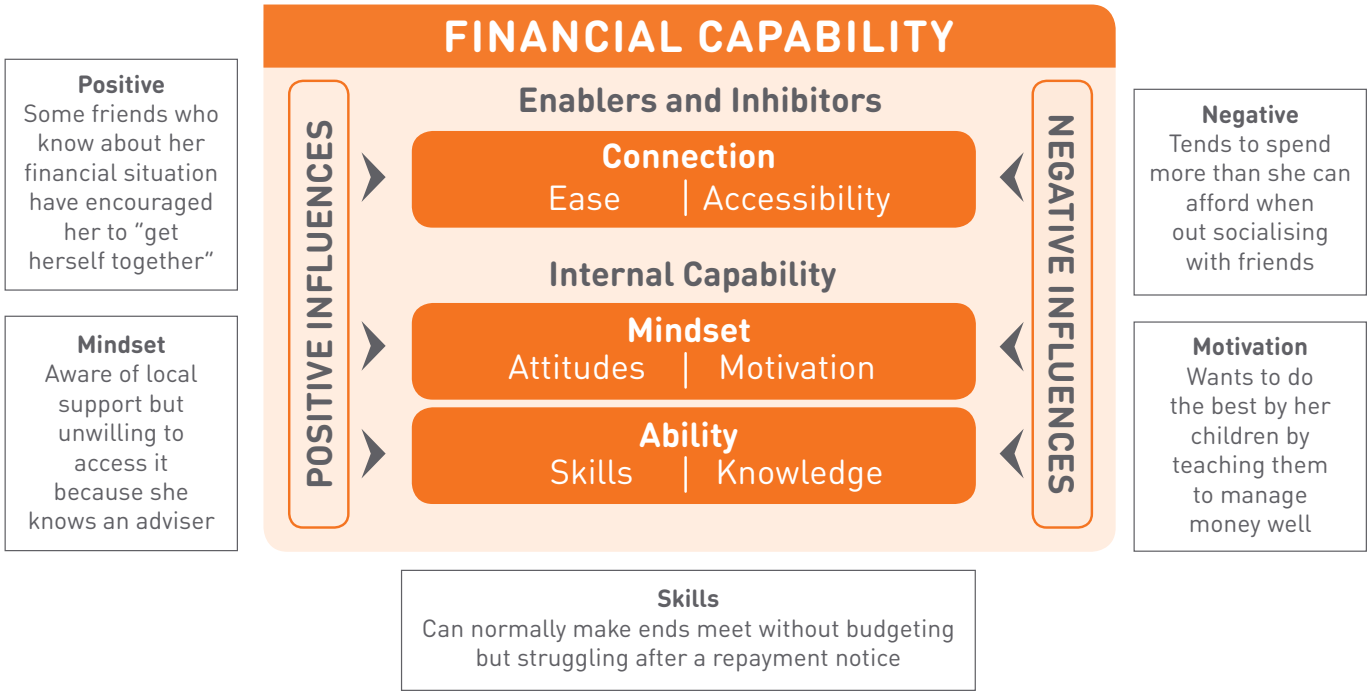
Karen's story:

Karen, 43, lives in Leicester with her partner and two daughters aged under 14. She earns £25K, shares household expenses with her partner and was able to make ends meet without routinely budgeting.

Karen wants to do the best for her children both in terms of buying them gifts and making sure that they learn to manage their money well. She tends to spend more money than she can afford socialising with friends, although some friends who know about her financial position have encouraged her to 'get herself together'. She is aware of local sources of support, but felt uncomfortable taking advantage of this because she knew one of the advisers. Karen was getting by through struggling and juggling, but wasn't getting to grips with her situation and her position wasn't tenable. A few months ago, she received an unexpected £21K repayment notice from HMRC and is now struggling, trying to cut back on spending and taking on extra work.

Karen's story illustrates the importance of influences in determining financial behaviour and the impact of one unexpected financial event on someone with low resilience.

Karen's Financial Capability Framework:

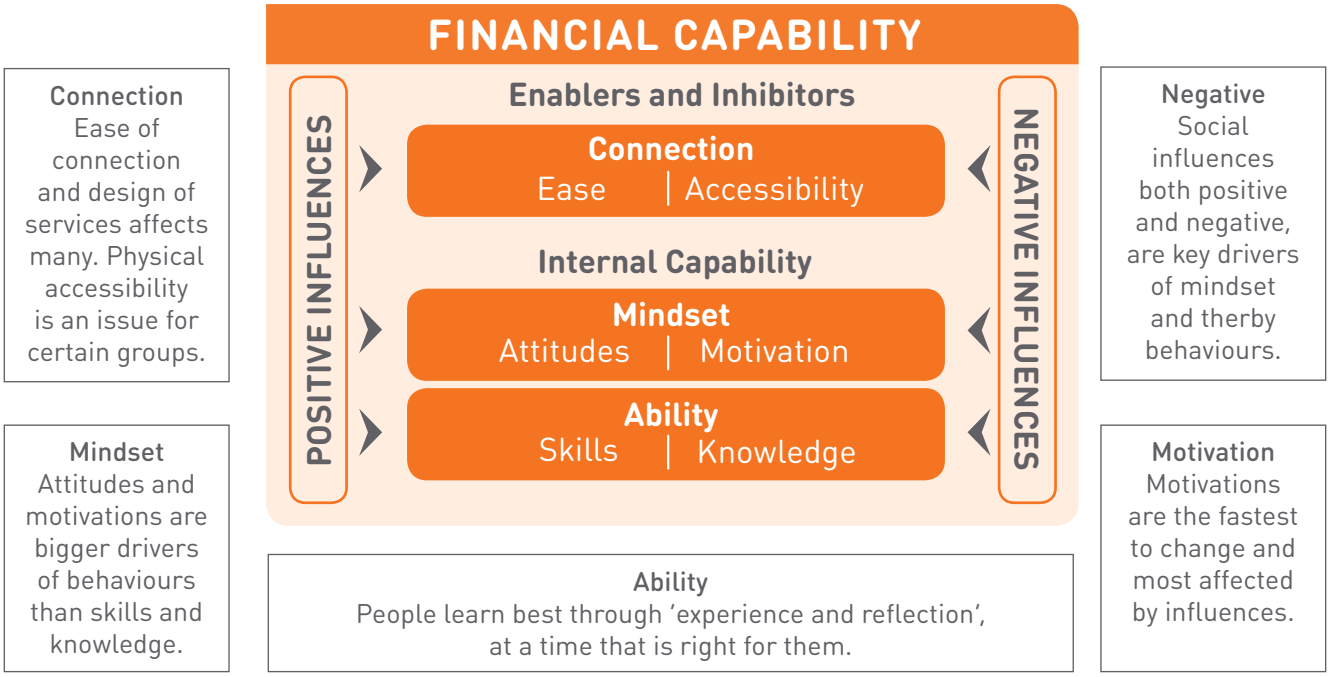


There are thousands of stories like Karen's that can be articulated using this framework. There are many examples of people with high levels of financial skills and knowledge who have ended up facing difficult problems because a lack of wider financial capability has led them to take poor decisions.

The diagram below shows an aggregated picture of the major impact points within the framework, based on all the research that has been compiled and combined. In particular, the boxes at the side highlight how skills and knowledge are secondary to motivations and attitudes, and how motivations themselves can move quickly and are very susceptible to the positive and negative influences around them.

To successfully change the nation's financial capability will need co-ordinated effort across the entirety of this framework, focussed on a set of core objectives.

UK Financial Capability Framework:



Financial Capability Strategy for the UK: Objectives

Individual: Stronger personal financial capability

- Better financial skills and knowledge
- More positive attitudes and motivation to manage money successfully

System: More effective enablers and lower barriers to financial capability

- Greater and more equitable access to financial products and services, advice and support
- Financial products and services, advice and support that are well designed and easier to fully understand and use

Environment: Better balance of positive versus negative influences on financial mindset

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

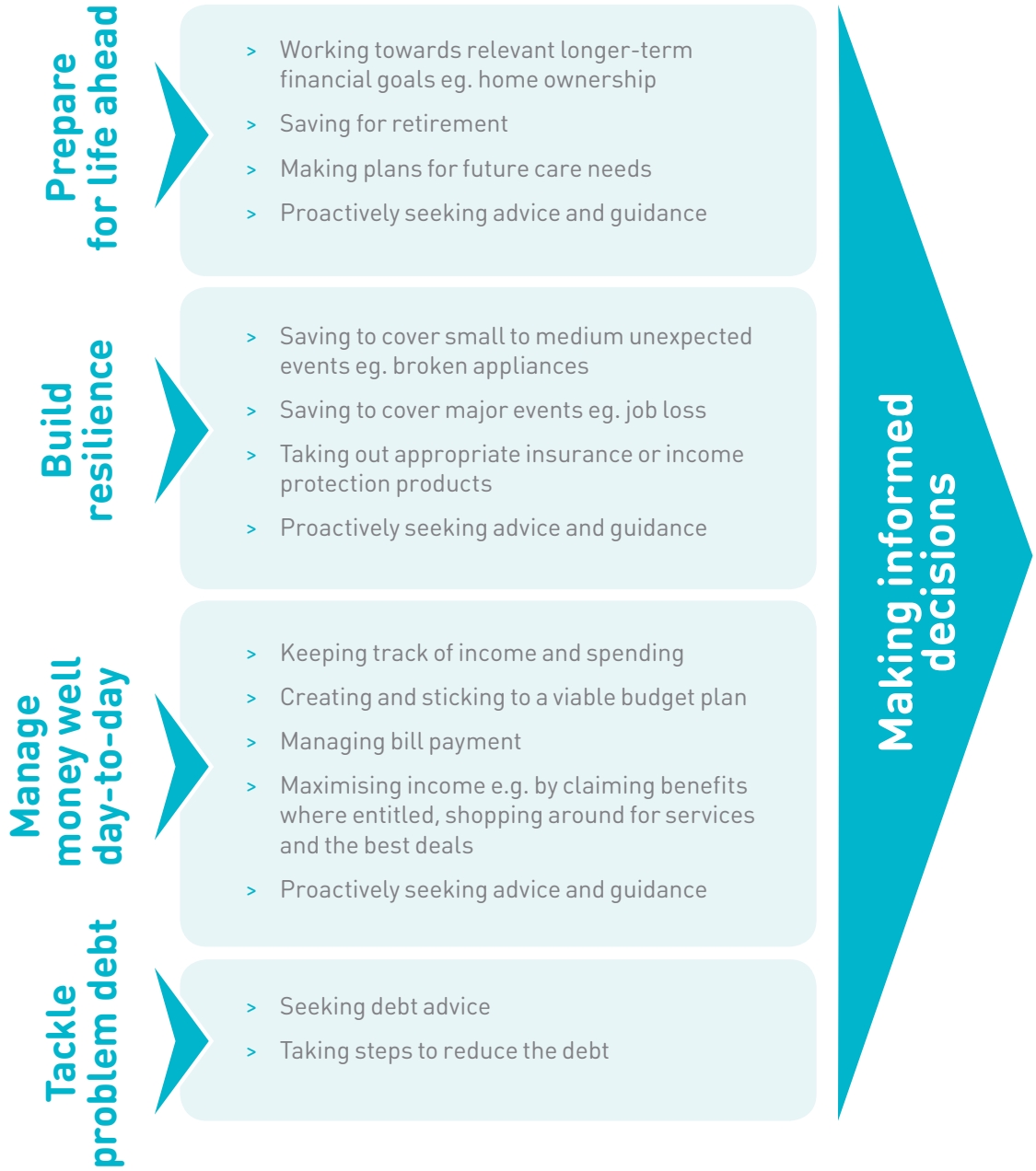
Financially capable behaviours

Financial capability helps people to optimise their financial wellbeing through positive financial behaviours.

Strong financial capability allows people to manage their money better day-to-day, and also to build resilience to avoid problematic times from income shocks such as redundancy, or negative life events such as divorce or bereavement. It also allows people to prepare well for their life ahead.

New work has highlighted four key categories of financial behaviour that strong financial capability facilitates. Each of the four behaviour domains includes a range of specific actions that financially capable people might take, and they in turn tend to lead to well-informed financial decisions where people understand what they are doing and what the consequences and outcomes are likely to be.

Financially capable behaviour domains:



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

The Strategy aims to encourage and support these behaviours to enable people to act in a way that maintains or improves their overall financial wellbeing. It also aims to create an environment that supports financially capable behaviour.

Financial Wellbeing

Improving financial capability and enabling more financially capable behaviour should create positive outcomes for individuals and the nation as a whole. If the Strategy is successful in improving financial capability, the potential, expected and desirable consequence will be an overall increase in the UK's financial wellbeing, with substantial benefits for individuals, families, communities, government, industry and society as a whole.

Although an individual's financial wellbeing encompasses a wide range of financial circumstances, evidence from the Money Advice Service Financial Capability Tracker suggests that there are five broad states of financial wellbeing which can be represented in the form of a staircase.

- The people at the top of the staircase, on the "Secure" step are financially resilient in both the short and the long term. They have savings and a plan for the future that will support their chosen and desired later life.
- The people on the bottom step already have serious debt problems and are "unable to keep up". Many need help to recover and to learn from the experience to be more financially capable in the future.
- In between are a range of people who are getting by and have varying levels of resilience to the challenges that they may face. Some have enough set aside to cope with a typical redundancy challenge (3-6 months' income), others have too little to cope with a typical unexpected bill – for example a car repair or a new pair of glasses.

The financial wellbeing staircase:

Consultation question 5: How important is it to track financial wellbeing to help measure the impact of the Financial Capability Strategy?

Data from the Money Advice Service Financial Capability Tracker has enabled an early but important assessment of the current financial wellbeing profile of the entire nation:

- A minority, about 20%, of adults have more than three months' income saved, and so could be considered 'Resilient'. Many of these people will not have a pension they consider adequate. So of these 20%, only around 10% are currently on the top 'Secure' step where most people would like to be.
- About 20% are on one of the bottom two steps. A significant number of these people struggle constantly and many others have fallen severely behind in paying their bills and servicing their debts. Most of the nine million people identified by the Indebted Lives research will be on these two steps.[9]
- Most people, about 60%, manage to 'Make Ends Meet', but they do not have the resilience to weather financial shocks. As a result, they can easily be knocked down the staircase by an unexpected or unplanned event. It is well known that two thirds of people who fall into serious debt problems do so because of some form of income shock.

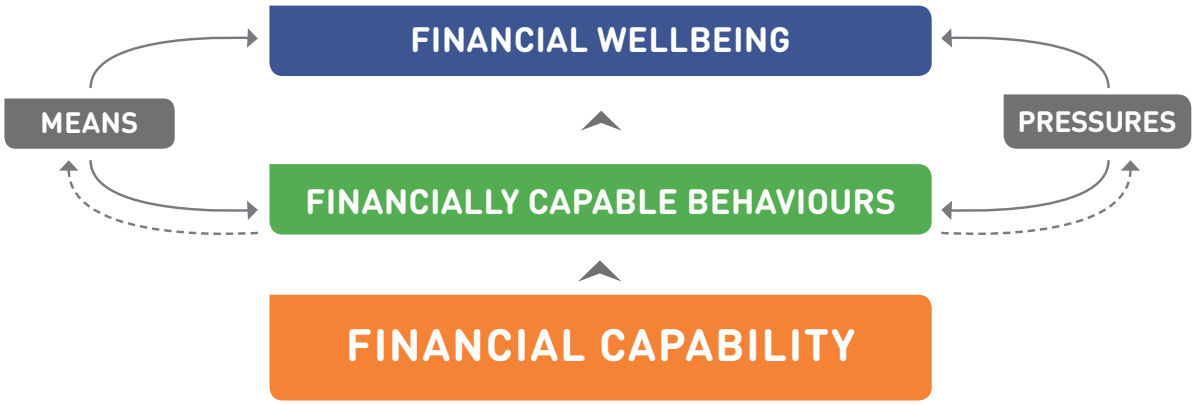
The current profile of the UK population is far from strong and resilient. Some of this will be due to the after-effects of the recession, but even before 2008, too many people were in financial difficulty or had low resilience. This highlights the scale of the national challenge to improve financial capability for the whole population and through the whole economic cycle.

A single statistic gives some sense of the challenge ahead: **in 2013 51% of people said they were "struggling" with their finances; in 2006 before the recession there were already 35% of people answering the same question the same way**.

Financial wellbeing is a measure of an individual or household's total financial situation. An individual or household's financial capability has a major part to play but it is far from the whole story. There are people who will not easily find the means to become resilient or secure. Our objective should be to improve financial capability so that people can improve their wellbeing position as much as their means and pressures allow.

9 Indebted lives: the complexities of life in debt, Money Advice Service 2013

Financial capability can help people improve their wellbeing:



Means and pressures are affected by the macro-economic climate as well as public policies such as welfare and automatic enrolment into workplace pensions. Given these external factors, there is no ideal level of financial wellbeing that is achievable for everyone, and not everyone can be financially strong. But by increasing financial capability, the UK population can be better equipped to have higher levels of resilience and to plan ahead.

Research has shown that there is a mild correlation between people's means and where they are on the staircase. There are people who have limited means who have built up resilience and a good plan for the future, and equally people with high incomes who find themselves on the lower levels of the staircase, financially over-committed and struggling to stay afloat or faced with unmanageable debt.[10] This confirms what many organisations which provide services to members of the public experience every day. While some people, such as renters or those with low qualifications, are more at risk of poor financial capability, the picture is complex,
with people of all characteristics exhibiting financially capable behaviour. And there seems to be little correlation with age levels or areas of the country. Attitudes come through as an influential factor in this research.

This evidence has informed the development of the Financial Capability Framework shown on page 7.

10 Understanding the profile of those most at risk of detriment as a result of low financial capability, Analysis of the MAS Financial Capability Tracker Survey, Hayes, Collard and Kempson, PFRC forthcoming

The benefits of improved financial capability

Improving the UK's financial capability, and hence financial behaviours, and financial wellbeing, will bring many benefits, both economic and personal.

Low financial capability reduces people's ability to enjoy life. It can also affect their physical and mental health. This causes distress, diverts resources from more productive uses and places a burden on the state. Three quarters of people seeking debt advice report health problems and over half report an impact on their work. When people escape from problem debt, their health and ability to spend and save all improve.

Quantifying the benefits is difficult. Some, like improving personal health, are of huge value, but are difficult to capture fully in financial terms. Even effective interventions are not easy to quantify unless evaluation has been built in to their design. The most recent attempt to estimate the benefits of an improvement in financial capability was the Thoresen Review.[11] It calculated benefits equivalent to just over £1 billion per year[12], indicating the magnitude of the potential impact from increasing the nation's financial wellbeing.

11 See Thoresen Review of Generic Financial Advice: Annex 4 (final report), 2008
12 Benefits net present value £26.6bn. Assuming level benefits and discount rates quoted in the report, the annual benefit is 1/25 of this.

Priorities for action

The insights used to develop the financial capability framework and the domains of financially capable behaviour, along with new analysis, have been applied to a number of priority groups and issues:

- **Children and young people** up to the age of 24.
- Working age people who are **Preparing for later life**
- **Older people** in retirement
- **People in financial difficulties**
- **Ease and accessibility** of financial products and services
- **Influencing social norms**
- **Evidence and evaluation**

The headlines and recommendations in each of these areas are summarised on the following pages. More detailed evidence packs are available to download separately at **fincap.org.uk**.

Consultation Question 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?

Children and young people

Improving the financial capability of children and young people in the UK is an important component of the overall Financial Capability Strategy.

The Strategy's overall aim in this area is for children and young people to continuously build their financial capability, so that they are equipped to manage money throughout their life and when they reach financial independence they can attain and sustain the highest level of financial wellbeing that their means allows. This will build on the excellent work already done to develop and support financial and entrepreneurial education in schools across the UK.

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

Key facts and insights:

- Many young people have financial difficulties. The debt charity StepChange reports an 85% increase in 18-24 year-olds seeking help from 2010-2013.
- Attitudes and motivations to money are at least as important as skills and knowledge. Brain development means that many attitudes and habitual behaviours are set by the age of 7.
- Children are ready to learn basic things about money from age 3.
- Parents and carers provide the main opportunity to see, talk and learn about money on a daily basis. Schools and other organisations also provide important opportunities to learn.
- Families and young people do not talk openly about money.
- New skills and knowledge need to be relevant and applied quickly to be understood and retained.
- Consumer messaging and social influences encourage young people to spend rather than save, even if they do not have the money and young people see being good with money as boring.
- There are a diversity of views within the sector about what needs to be achieved, how it should be measured and how findings should shape future interventions.

To achieve the Strategy's aims, children need to start learning how to be financially capable at a much younger age, focusing on attitudes and practical experience as well as skills and knowledge. This learning needs to continue throughout adolescence with increasing responsibility and opportunities to gain experience. Consistent messages should be developed and delivered by all influencers.

Recommendations for action

1. Do more to equip and motivate parents and carers to teach their children about money.
   - Identify, agree and extend use of **simple, key messages** about money for children of different ages.
   - Work with financial education providers to design and promote opportunities for parents and children to build on financial education in schools and **learn more about money at home**.
   - Work with organisations that provide early years care and family learning opportunities to develop and extend the availability of programmes that encourage parents and carers to **engage with their children around money from an early age**.
2. Ensure that all children, regardless of their family situation, have the opportunity to learn about money outside the home.
   - Work with organisations that teach and support children, young people and parents to **embed financial capability within their programmes**.
   - The Government should consider the case for **adding financial education to the primary curriculum in England**.
3. Financial service and education providers should increase **opportunities for children and young people to manage their own money**. For example, providing banking products for children and young people with modern product features so that children can put their learning into practice.
4. Focussed research to identify the most effective ways to **help young people feel proud to be good with money**.

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

Preparing for later life

A large number of working age adults make ends meet day-to-day but very few people plan and prepare adequately for a financially secure retirement.

New measures, like automatic enrolment into workplace pensions, are making a massive difference by getting millions more people saving. However, even after these reforms, an estimated 12.2 million people will face inadequate incomes in retirement.

The Strategy's overall aim in this area is to improve people's financial capability, so that everyone reaching retirement is at least able to make ends meet, and more achieve higher levels of financial resilience and security.

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

Key facts and insights:

- Planning and saving for retirement is made more difficult by natural attitudes and motivations like inertia, short termism and a tendency to optimism.
- Few working-age people are planning and preparing adequately for a financially secure retirement. Some will get there through employers' pension provision but many are at risk of falling down the financial wellbeing staircase in later life.
- The transition into retirement is an increasingly complex journey, with several stages, and irreversible decisions that impact on financial wellbeing in later life.

To achieve the Strategy's aims, more people need to make adequate plans and take action to prepare for their later life and greater support is needed to empower people to successfully take key financial decisions in the run up to retirement. The recommendations in this Strategy aim to support automatic enrolment and complementary programmes.

Recommendations for action

5. Build on the success of automatic enrolment through:

- Advice organisations, Government and product providers undertaking co-ordinated research about the most effective ways to **overcome attitudinal and motivational barriers** to long term planning and saving and committing to act on the results.
- Increasing take-up of financial capability support that focuses on **budgeting and general money management skills** to enable and encourage people to save more for later life.
- Joint action with the broader pensions industry to develop messaging to **support and then supplement the 'we're all in' campaign for automatic enrolment** from 2018.

6. Build on landscape changes announced in the Budget 2014:

- In relation to retirement income products and services, product providers will need to **develop their proposition to meet evolving customer needs**.
- **Support people approaching and transitioning into retirement** so that they can make informed financial choices about their later life, including through the Guidance Guarantee.

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

Older people in retirement

Many older people have planned ahead effectively and are relatively well placed for financial security in later life. However, older people who are only just making ends meet are vulnerable to financial shocks caused by events such as bereavement, or an increased need for long term care.

The Strategy's overall aim in this area is to improve the financial capability of older people so that a strong and independent older, retired population is able to maintain the highest level of financial wellbeing possible, given personal financial means and pressures, and in the face of the challenges posed by physical and cognitive decline in older age.

Consultation question 11: How far do you support the Strategy's aims for older people?

Key facts and insights:

- 71% of people over 65 are satisfied with their financial circumstances, compared to 45% of people between 25 and 64.[13]
- A significant minority of older people do not manage their money well day to day. A third of all people over 65 struggle to make and stick to a budget[14] and people over 75 have significantly lower financial literacy than the rest of the population.[15]
- Older people face significant barriers that exclude them from financial services and advice. Many older people's connection to financial services reduces because of declining health, technological barriers, or financial products that do not meet their needs.
- 2% of householders aged 75 and over still have a mortgage to repay on their main home.[16]
- Around a third of indebted older people could not see themselves seeking debt advice, compared to around one in six for all age groups.[17]
- 800,000 people in the UK currently have dementia[18] and three in four of this group struggle to manage their finances.[19]
- Only 37% of older people agree that they have a plan to pay for any care they need in old age.[20]

13 Financial wellbeing in later life: evidence and policy, PFRC and International Longevity Centre 2014
14 www.alzheimers.org.uk
15 Short changed: Protecting people with dementia from financial abuse, Alzheimer's Society 2011
16 Financial wellbeing in later life: evidence and policy, PFRC and International Longevity Centre 2014
17 Unpublished analysis of Financial Capability Tracker data (waves 2-5), Money Advice Service 2013/14
18 www.alzheimers.org.uk
19 Short changed: Protecting people with dementia from financial abuse, Alzheimer's Society 2011
20 Unpublished analysis of Financial Capability Tracker data (waves 2-5), Money Advice Service 2013/14

To achieve the Strategy's aims, older people in tight financial circumstances need better support and specific action is needed to increase the financial capability of those at risk of income shocks or financial problems in later life.

Recommendations for action

7. Support **the 1 in 3 older people who find managing their day to day finances difficult to become more effective money managers**.
   - Ensuring budgeting tools and support are accessible for older people and improve signposting and referrals.
   - Providing practical support and assistance to help older people to shop around and get the best deal on big purchases, utilities or other services.
   - Helping older people to maximise their financial means.

8. Building on AgeUK's Financial Services Commission recommendations, the financial services industry should work with the advice sector and older people's organisations so that **products and services are easy to use and accessible for older people**.

9. **Focus resources on the key risks to financial well-being in later life**
   - Support people who reach retirement with a mortgage to **develop a realistic mortgage repayment plan** (that may involve debt advice).
   - **Increase the early take-up of debt advice** by over-indebted retirees.
   - Encourage people to **make timely plans to manage the impact of increasing cognitive impairment** on financial wellbeing.
   - Help people **make informed and sustainable decisions about funding long term care**.

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

People with financial difficulties

Income shocks are the primary cause of most debt problems, so people who are making ends meet but are not financially resilient are at risk, as well as people who are constantly struggling. When debt problems occur they can escalate very quickly, but there is scope to spot them earlier. Debt advice is effective but many people with debt problems do not access it early enough if at all.

The Strategy's overall aim in this area is improve financial capability, thereby reducing the number of people who become over-indebted and enabling more people to resolve their debt problems quickly, securely and sustainably.

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

Key facts and insights:

- Income shocks are a major cause of problem debt. Two thirds of over-indebted people think their situation is normal.[21]
- Despite the availability of a range of free, high quality services, only 17% of people with problem debt seek advice and, of those, more than half have had debt problems for more than a year.[22]
- In the last year UK banks and building societies wrote off £3.4bn of lending to individuals.[23] Problem debt also has personal and economic impact through health and working ability.
- The existing suite of formal and informal debt solutions does not meet the needs of increasing numbers of people with problem debt.
- Creditors are uniquely positioned to support indebted customers.
- Debt advice services are effective but there are opportunities to further improve the quality, consistency and effectiveness of debt advice.[24]

21 Money Advice Service Debt Advice Review 2013/14, Optimisa Research 2014
22 Indebted lives: the complexities of life in debt, Money Advice Service, 2013
23 BankStats, Bank of England June 2014 (see data table C2.1: http://www.bankofengland.co.uk/statistics/Pages/bankstats/2014/jun.aspx)
24 Effectiveness Research, YouGov

Achieving the aims of the Strategy will require more early intervention before individuals' debts spiral out of control, encouraging more people with debt problems to come forward, continued improvement of debt advice and the exploration of new debt management solutions.

Recommendations for action

10. Money Advice Service should lead work with the advice sector, DWP, housing associations and credit providers to **develop and extend effective methods to reach more of the people who are struggling to keep up so that they can absorb income shocks more effectively**.

11. Work across the financial services industry, key creditors and debt advice sector to **identify where there is scope to spot problems earlier, before debt becomes unmanageable**.

12. The debt advice sector, creditors and public services should work together **to encourage more people with debt problems to seek debt advice earlier**.

13. Money Advice Service to initiate work with the debt sector to put in place **the right formal solutions to enable people to sustainably resolve their debt problem**.

14. **Develop best practice for offering 'breathing space' and to encourage take up** across the financial services, utilities and public sectors.

15. On-going work led by the Money Advice Service with the debt advice sector to drive up quality, consistency and effectiveness of debt advice services, including **ensuring that more debt advice clients also receive money advice to increase their resilience in future**.

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

Ease and accessibility of financial products and services

Taking financially capable action requires not only the appropriate skills, knowledge, attitudes and motivation but also the opportunity to connect to financial services, support and advice. These need to be accessible and easy to use, with clearly understandable consequences.

Accessibility is a problem for some particular groups. For example, physical access to bank branches and cash machines is more difficult for people with low mobility or confidence, including some older people. Accessing appropriate credit quickly is more difficult for those with variable incomes or poor credit records. The consequence of decisions is often unclear to consumers leading, for example, to unforeseen costs of credit.

The Strategy's overall aim in this area is to improve the financial capability by enabling better access to appropriate and easy to use financial services and advice, with the consequences of decisions made clear.

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

Key facts and insights:

- Most financial services and advice is available in person, by phone and on the Internet, so people that have access problems by definition have multiple disadvantages.
- Across the range of financial services, 'ease' problems are not often reported by consumers; far more common is a view that products are too easy (e.g. credit cards and payday loans) or have unfair charges (e.g. loans and overdrafts).
- Consumers focus on the immediate benefits of credit – spending power – rather than terms or costs. In one piece of research, none of 51 credit card users had methodically compared cards. When cost is considered, it is monthly repayments, not APRs or total cost.
- Many people ignore terms and conditions, don't take up regulated financial advice and rely on informal support and information including from family and friends. This can be inaccurate or unbalanced.

To achieve the Strategy's aims, financially capable choices must be easy and accessible compared to the alternatives. Some of the issues are clear, but others are emerging and some may still currently be unknown. In addition the consequences and full costs of services need to be clear, in particular for easy to access consumer credit.

Recommendations for action

16. Money Advice Service to work with **consumer organisations to systematically identify, prioritise and propose solutions to problems** of access to financial services including advice, whether problems faced by specific disadvantaged groups, or problems with the ease of accessing specific services.

17. **Help people to understand the consequences of the choices they are making by**:
    - FCA and industry working together to increase clarity on the costs of credit in terms that people understand intuitively, for example, pounds and pence, not percentages, and making clearer the impact of missing payments.
    - Simplifying and, where possible, standardising terms and conditions to highlight the parts that matter.
    - Using behavioural science techniques to design 'consequences' messages that people assimilate quickly during a buying process and that work on motivations as well as knowledge.

18. Money Advice Service, consumer organisations and others to **drive awareness and highlight the benefits of the use of appropriate independent advice**.

19. Continued **innovation in the use of interactive on-line financial self-assessment tools and decision aids**, as an easy and cost-effective complement to personal advice.

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

Influencing social norms

People make decisions in a social context and the influences of friends, family and society more broadly, through their behaviours and attitudes, are very strong.

Today, these influences seem to encourage spending for the moment rather than saving for the future and are damaging to financial capability. People are bombarded every day with consumer marketing inducements to spend and borrow.

The Strategy's overall aim in this area is to challenge societal norms which undermine financial capability.

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

Key facts and insights:

- UK advertising expenditure in 2013 was £17.9bn. Over 90% of outlay by the top 100 advertisers is aimed at getting people to spend or borrow.[25]
- Attitudes are a key driver of behaviour and therefore financial well-being.
- Young people often spend more than they have, or choose not to save for the future, in order to be seen by their friends as generous and living in the moment. Nearly half of adults across the UK admit to falling into debt as a direct result of their social lives.[26]

25 Advertising Association/Warc 2013, Nielsen Ad Dynamix 2013
26 Money Lives, Money Advice Service 2014; Research carried out by One Poll for Money Advice Service, June 2014 (sample: 3,000 UK adults)

To achieve fully our strategic aims the nation will need to address a number of these wider issues.

Recommendations for action:

20. Cross-sectoral work to develop and test interventions that encourage financially capable behaviours, particularly at key life events when people are more receptive to changing their behaviour.

21. The development of simple money management messages to encourage resilience building that can be deployed and repeated through trusted intermediaries and brands.

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

Evidence and evaluation

To increase the positive impact and cost effectiveness of programmes, a robust understanding is needed of what interventions are most effective in improving people's financial capability.

There are currently pockets of excellent practice, **but key evidence gaps persist, and robust impact evaluation of programmes is not yet widespread**. There is strong desire within the sector for more evidence, but a lack of guidance and resources.

The Strategy's overall aim in this area is to accelerate learning, and to increase the impact of scarce resources devoted to financial capability building, through the consistent evaluation of interventions.

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

Key facts and insights:

- There are some **excellent examples of rigorous evaluations of financial capability interventions**. Around 7 in 10 financial capability programmes are evaluated or assessed in some way.[27]
- Despite the appetite of organisations to assess their services there is still **too great a reliance on reporting activities** (e.g. the number of training sessions delivered) and measuring customer satisfaction, rather than outcomes. This is due both to a lack of resources and a lack of clear guidance.
- There is a clear desire among financial capability practitioners and funders for **better evaluation to understand their impact, and for a more strategic approach to the use of existing evidence**.[28]

27 Unpublished work commissioned by the Money Advice Service.
28 Responses to the UK Strategy call for evidence.

To achieve the Strategy's aims will require all organisations to commit to working together to address key evidence gaps and implement good practice.

The Money Advice Service will work in partnership with other organisations to support the **growth of an evidence and evaluation culture across the financial capability sector.**

This will include:

- Carrying out strategic research and evaluation
- Creating a common evaluation toolkit, including standard outcomes frameworks for adults, and children and young people
- Capacity building, training and support for practitioners and funders
- Developing an evidence and evaluation hub
- Using this evidence to develop ever more effective actions to improve financial capability and wellbeing.

Recommendations for action:

22. Financial capability funders, researchers and providers should commit to the evaluation and evidence principles set out alongside this Strategy. These aim to drive consistent impact evaluation, assess the effectiveness of services using standard outcome frameworks and enable open sharing of results to create a common understanding of what works.

23. Relevant organisations, including the Money Advice Service, financial capability providers, research institutes and academic bodies, should conduct research and evaluation to fill the key evidence gaps, such as the most effective ways to help people overcome their natural reluctance to start preparing for future expected and unexpected events.

24. Funders to direct funding to programmes that have been shown to work or to new and innovative projects with evaluation built in.

25. Providers to commit to using evidence to inform delivery decisions.

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

Going forward

Improving the financial capability of the UK is a major challenge. Many organisations have contributed to the development of the Strategy so far. Progress will require combined effort and commitment from multiple stakeholders over many years.

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

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

The priorities and recommendations for action that are summarised in this document are set out in more detail in the evidence papers that are being published alongside this draft Strategy. This consultation is seeking your views on these recommendations.

Following the consultation period your inputs will be used to refine the Strategy and crystalise the specific programmes of work, the responsibilities and key milestones that will deliver the much needed step-change in financial capability. The Money Advice Service will lead work to devise and agree a programme of initiatives with measureable goals and robust approaches to tracking progress over the coming months. The final Strategy will also take account of the findings of the Independent Review of the Money Advice Service which is currently on-going. The Strategy will be completed in early 2015.

To achieve the change that is needed, many participants from different sectors will need to take on an active role in taking forward programmes that increase people's financial capability - both in terms of influencing their behaviour and enabling them to act in a more financially capable way.

- The Money Advice Service will lead the co-ordination of the Strategy and monitor progress. The Service will also play a leadership role on key areas of the Strategy, for example to bring together the debt advice sector, financial services industry and creditors to improve outcomes for people with financial difficulties.
- Funders of financial capability interventions will need to commit to using the common outcomes frameworks to direct limited resources to maximise their impact.
- Providers of financial capability interventions will need to support the objectives of the Strategy, for example committing to using the common evaluation framework and to share evaluation findings.
- Schools and colleges will need to promote experiential learning opportunities for children and young people in school and opportunities for children to learn about money at home with their parents.
- The financial services industry will need to provide products that meet the needs of a diverse population and consider how product design, delivery and promotion can encourage or support financially capable behaviour.
- Government will need to continue to work with stakeholders to ensure that the scope and framework for regulation is appropriate and to consider the impact of policy decisions on financial behaviour.
- The regulators will need to promote and protect the interests of consumers, ensuring that product information is given in a way that reflects consumer behaviour.
- Other organisations with significant bearing on financial behaviour, such as the housing sector and utility companies, will need to do more to consider the impact of their policies and consider the scope to make changes to encourage more financially capable choices.

The final Strategy will aim to effect change initially within 5 years and materially over a 10-year time horizon by 2025. Progress in enhancing financial capability will need to be closely monitored over the period of implementation.

Details of the proposals for monitoring progress are set out in a separate downloadable document "Monitoring and evaluating progress." The proposed approach focuses on monitoring the financial capability and behaviour of adults and children and young people. The main focus of the monitoring activity will be on the components of the financial capability framework: mindset (attitudes and motivation), ability (skills and knowledge) and connection with financial products and services. Financial behaviours will be measured across four core domains: preparing for life ahead, building resilience, managing money well day-to-day and tackling problem debt. Final indicators may vary by life stage. We also propose to monitor financial wellbeing to capture the potential impact of improved financial capability. Work will be undertaken in 2015 to establish a baseline.

The results from this monitoring activity will be publicly reported. The Strategy will need to be regularly reviewed and refreshed in light of progress and new insights.

Participating in the consultation

The new Financial Capability Strategy for the UK aims to make a step change in people's capability to handle their finances in the short and long term, contributing to measurable improvement in financial wellbeing.

To fulfil this ambition, a broad range of participants will need to commit to a shared set of priorities and take collective responsibility for delivering key recommendations. The vital first step in this process is agreeing the priorities for action and how best to deliver them. It is therefore very important to hear views from individuals and organisations through this consultation.

There are specific consultation questions throughout this document and listed in Annex A. We are happy to receive any other comments on this draft Strategy.

The consultation closes **on 24th October 2014.**

You can share your views in a number of ways:

- Attend one of the consultation events that are being held during September and October across the UK.
- Respond online at **fincap.org.uk**, by email **consultation@fincap.org.uk** or post to:

  Financial Capability Strategy for the UK
  Policy Team
  The Money Advice Service
  Holborn Centre
  120 Holborn
  London EC1N 2TD

Consultation responses will be analysed and will help shape the final Strategy. They will also be posted online as part of the full package of materials that underpin the new Strategy. Please share your comments, whether they relate to the whole of the Strategy or only one or two areas.

Annex A: Consultation questions

1. What time period should the Financial Capability Strategy cover?
2. What is your view of the Financial Capability Framework?
3. How far do you agree with the objectives of the Financial Capability Strategy?
4. What is your view of the financially capable behaviour domains?
5. How important is it to measure financial wellbeing to help measure the impact of the Financial Capability Strategy?
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?
7. How far do you support the Strategy's aim for children and young people?
8. What is your view of the recommendations for action relating to children and young people? How could they be improved?
9. How far do you support the Strategy's aim in respect of preparing for later life?
10. What is your view of the recommendations for action relating to preparing for later life? How could they be improved?
11. How far do you support the Strategy's aims for older people?
12. What is your view of the recommendations for action relating to older people? How could they be improved?
13. How far do you support the Strategy's aims for people with financial difficulties?
14. What is your view of the recommendations for action relating to people with financial difficulties? How could they be improved?
15. How far do you support the Strategy's aims in relation to the ease and accessibility of products and services?
16. What is your view of the recommendations for action relating to the ease and accessibility of financial services? How could they be improved?
17. How far do you support the Strategy's aims in relation to influencing social norms?
18. What is your view of the recommendations for action relating to influencing social norms? How could they be improved?
19. How far do you support the Strategy's aims relating to evidence and evaluation?
20. What is your view of the recommendations for action relating to evidence and evaluation? How could they be improved?
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?

Financial Capability Strategy for the UK

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