

Financial Capability:

The Money Advice Service and Educating the Public on the RDR

Contents

- 1 > Summary
- 2 > The Policy Context
- 3 > The Money Advice Service and the RDR
- 4 > Findings from CII Research
- 5 > CII overall view

Contact:

If you have any questions or comments on this paper, please contact Laurence Baxter, Head of Policy & Research at the Chartered Insurance Institute. Email: laurence.baxter@cii.co.uk; Tel: +44(0)20 7417 4783

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1. Summary

- Government will launch its promised Financial Health Check on 8 June 2011, an on-line tool designed to help consumers think and plan their personal finances.
- The Financial Health Check will act as a signpost to a range of impartial financial capability resources already available by the newly rebranded Money Advice Service through internet, telephone and face-to-face channels.
- The Financial Health Check/Money Advice Service is a key element of the Government's national financial capability strategy which has seen much activity in the last few years, including the Thoresen Review of generic financial advice and the Money Guidance Pathfinder that took place in 2009-2010.
- The last several months have seen debate within industry about the labelling of the new service and its implications for financial advice. However we believe that the Money Advice Service could play a valuable education role for consumers.

CII View:

- We support the Money Advice Service and its work, believing that it is a vital part of restoring public trust and confidence and acts as an impartial voice to consumers.
- The Service is best placed to lead a campaign to prepare and inform the public about the implications of the Retail Distribution Review.
- CII research finds that nearly 11 million consumers who have not received advice would consider it if they knew about the RDR changes.
- We believe that while some may have concerns (incorrectly in our view) that the Service may offer competition to the regulated professional financial advice sector, over time it will stimulate more consumers to think and take action and will lead to more consumers seeking and using regulated advice.

2. The Policy Context

On 8 June, the Government will formally launch its promised Financial Health Check, an on-line tool designed to help consumers think and plan their personal finances. This tool will be offered by the Money Advice Service, the new single independent and impartial consumer financial education body that was formed in 2010.

Background: National Financial Capability Strategy and Related Initiatives

The Financial Health Check and the Money Advice Service are now key elements in the Government's national financial capability strategy which has seen much activity in the last few years:

- **Financial Capability Baseline Survey:** a research project published by the Financial Services Authority (FSA) in 2005 found a widespread lack of public understanding in the five domains of personal finances: making ends meet, keeping track of finances, planning ahead, choosing products, and staying informed.
- **Thoresen Review into generic financial advice:** the Government asked Otto Thoresen to lead a feasibility study on the provision of a service that would provide free guidance on personal finances to all consumers nationally. The review reported in 2008, recommending that such a service be formed.
- **Money Guidance Pathfinder and Rollout:** the Government asked the FSA to pilot what it called a "Money Guidance Pathfinder" in the north of England in 2009, and then rolled the service out nationally a year later.
- **MoneyPlan initiative with Citizens Advice:** the CII through the Personal Finance Society launched an initiative known as MoneyPlan in 2005 whereby its members provide *pro bono* service to consumers referred by their local Citizens' Advice Bureaux. Although MoneyPlan is separate from the Money Advice Service, many of the concepts are similar.

The Money Advice Service

In 2010, all the FSA financial capability activities including money guidance, consumer education, and consumer research projects were grouped into a single independent and impartial statutory body under the *Financial Services Act 2010*. This body is now called the Money Advice Service. It encompasses all activities into a single brand across internet, telephone and face-to-face channels, with an operating budget of nearly £44m.¹

The Money Advice Service operates under the strict proviso that its activities must not: (a) cross the legal boundary into providing regulated financial advice to the public; or (b) promote specific financial products or services (see box at right).

The Importance of Impartiality

The effectiveness and reputation of the Money Advice Service is contingent on it maintaining a clear "**on the consumer's side**" impartiality from the market. The Thoresen Review found that:

- consumers need access to a single portal that could provide *suggestions* or *guidance* on the basic household financial management domains (making ends meet, keeping track, planning ahead, choosing and distinguishing products, and staying informed).
- to do this, the Service must not be seen as a market participant by recommending any product or service. Nevertheless
- a service with such legal limitations could still be meaningful to customers. Its role is to **increase the public's knowledge**, and therefore trust and confidence in their financial management. It is *not* designed to help customers buy products and services.

From April 2010 to April 2011, the fact that some 1.5m people used CFEB services despite there not being any major advertising activity suggests that consumers do see a role for it.

¹ Money Advice Service, [2011/12 Business Plan](#), April 2011.

Financial Capability and the RDR

Internet:

A single interactive education and troubleshooting web portal: www.moneyadvice.service.org.uk

- It contains questions and answers about all aspects of personal finances, search tools, decision trees that lead users to accessible information, as well as comparison tables and signposts for further action.
- Independent research evaluating the 2009-10 Money Guidance Pathfinder found that of the 570,000 sessions conducted, 95% were dealt with entirely via this channel.²

Telephone:

Consumers can contact a single telephone number (0300 300 5000) to receive the information provided by the internet or more granular information:

- Those requiring help on more complex areas would be forwarded to the call centres of specialised partner organisations such as The Pensions Advisory Service.

Face-to-Face:

Those preferring the direct face-to-face support or in need of a more general interview can set up an appointment to meet with a “money adviser”.

- During the Money Guidance Pathfinder in the north of England in 2009-10, ten practitioners (qualified to Cert CII level or equivalent) were contracted to perform these meetings, of which eight had previously been qualified financial advisers.³

Financial Health Check

The internet channel is soon to be augmented by a new ‘Financial Health Check’ tool to be launched on 8 June. This fulfils the Coalition Government’s pledge to carry this out as part of the national financial capability strategy.

- It will act as a signpost to a range of impartial financial capability resources already available through internet, telephone and face-to-face channels.
- This online tool will ask users about 25 questions about their finances, probing responses and interactive decision trees. It then generates an analysis and suggested prioritised actions.
- For example if the responses to the questions suggest that the user has outstanding debts and difficulty with budgeting, it will present budgeting tools to help the customer to prioritise debt servicing. On the other hand, if the customer has debt under control but limited short-medium term savings, it will point to the MAS’s own savings account comparison tables to build up savings, and help the customer set savings goals.
- Users will be able to create a personal account, which allows them to set up alerts, set up profiles and print action lists, and then integrate with the telephone and face-to-face channels.
- Subsequent revisions will be more integrated, and a deeper version is being considered that would ask more questions to create a more detailed analysis, which could help when dealing with regulated advice.

Concerns with Money Advice Proposals

A number of concerns have been expressed by the industry over how the Money Advice Service and its associated services are taking shape. Below we present the key concerns as well as the relevant counterarguments.

² Elaine Kempson *et al*, [Money Guidance Pathfinder: Key Findings and Lessons Learned](#), an evaluation report for the Consumer Financial Education Body (Money Advice Service), July 2010, p.10. See also the [Full Report](#).

³ *Ibid*.

⁴ Citizens Advice, [MoneyPlan: A Pilot Project Giving Independent Financial Advice to Citizens Advice Bureau Clients](#), Final Report, June 2009.

Consumers acting on the recommendations:

Some argue that the Service will be ineffective in getting consumers to act on guidance given. With the onus on consumers to choose and purchase products, research suggests this will not happen. However experience from the Money Guidance and equivalent projects suggests that consumers do act on guidance given:

- An independent evaluation of the separate but related PFS-Citizens Advice MoneyPlan initiative found that 64% of a sample of cases took some follow-up action and 28% were still considering doing something. Crucially, 87% reported an increased ability to help themselves in the future.⁴
- The independent Money Guidance Pathfinder evaluation found that 51% of consumers took action within two months of using the Service, and another 25% had taken action with six months of the usage.⁵

'Money Advice Service' label:

Many are arguing that "money advice" is an inappropriate label for a service that is legally unable to give regulated financial advice.⁶ The label prompts an expectation that full advice will be provided even though the service is under strict protocol not to do this.

However, the Government believes that the term "advice" is conceptually simpler to everyday consumers than the legal definition suggests.⁷ To avoid this term simply because it might be construed as regulated financial advice risks losing the attention of many consumers to whom the precise legal definitions mean nothing.

Fear of competition with financial advisers:

Some financial advisers fear that the free services offered by the Money Advice Service might present competition. Alternatively, services such as the Financial Health Check as well as on-line and telephone services may usurp parts of the advice process such as the fact find.

The counterargument is that the Service does not profess to offer regulated financial advice and therefore cannot compete in that market. In fact, it might even refer to advisers customers who may not have otherwise considered that route. The Money Guidance Evaluation found that, 21% of all users (including 73% of telephone users and 74% of web users) had applied for, bought or changed a financial product.⁸

Quality of 'advice' given:

Some advisers are concerned that the services offered might actually be detrimental to consumers. One columnist in the trade press warned that the lists of products and providers listed on the website comparison tables could be mistaken as being recommendations that are suitable to the user "where the merits of one [product] over another are not explained."⁹ Allied to this is a concern that a detailed personal finance action plan is difficult to create on the basis of answers to just 25 questions.

On the other hand, most of the website does not profess to make personalised recommendations to consumers, except the Financial Health Check which asks a series of questions of the user in order to develop a result.

⁴ Citizens Advice, [MoneyPlan: A Pilot Project Giving Independent Financial Advice to Citizens Advice Bureau Clients](#), Final Report, June 2009.

⁵ Elaine Kempson *et al*, *op.cit.* Note 1, p.13.

⁶ See for example, "PA goes mystery shopping at the FSA's new Money Advice Service," *Professional Adviser*, 7 April 2011, p.3.

⁷ See for example, [Speech by Mark Hoban MP, Financial Secretary to the Treasury](#), at the Consumer Financial Education Body Annual Conference, Cambridge, 14 July 2010.

⁸ *Ibid*, p.13; Evaluation Full Report, p.40.

⁹ [Money Advice Service Paranoia](#), by Nic Cicutti, MoneyMarketing, 19 May 2011.

Addressing issues – focus on everything, and risk achieving nothing:

Some observers are concerned that the Service's resources are stretched too thin by attempting to meet the full range of consumers including debtors, benefits recipients, and sophisticated pension/investment consumers.

Allied to this is the concern that the whole financial capability strategy only seems to effectively target a market which is irrelevant to most mainstream firms: customers of basic bank accounts and accessible credit and insurance. But the Pathfinder Evaluation shows that Service users are in fact in the mass market:¹⁰

- Only 14% of users were classified in the DE socio-economic group, whereas 46% of telephone service users (and 74% of website users) were social class C1 or above.
- 70% of telephone users (and 74% of website users) owned a home or held a mortgage.

Additional considerations

The Money Advice proposals stand up to scrutiny - the choices that have been made appear well designed to tackle the central problem of financial capability. Despite this relatively impressive starting point however, we believe that the Money Advice Service can do more to tackle the public's inertia and lack of understanding when it comes to managing personal finance.

In this context we argue that, with its role as an impartial educator, the Money Advice Service must keep the public informed of the latest developments to transform retail financial services for the benefit of the consumer. As the next section will show, an information campaign about the reforms to financial advice could lead to a growth in interest about financial products and services and therefore increased public awareness regarding savings and investments.

¹⁰ Elaine Kempson *et al*, *op.cit.* Note 1, p.8.

3. The Money Advice Service and the Retail Distribution Review

The Money Advice Service should do more to prepare the public for the changes to financial advice under the Retail Distribution Review (RDR).¹¹ The RDR itself is predicated on consumers making informed choices in the retail investment market.

Indeed, an independent report commissioned by the FSA as part of the policy development process concluded that: “many consumers are either confused or sceptical about the degree of competence, integrity and benevolence exhibited by the financial services industry in general and investment advice in particular.”¹²

We believe the success of the RDR hinges on a coordinated consumer education campaign led by the Money Advice Service.¹³ We have commissioned survey research which has found that:

- One in three respondents had not taken financial advice. When asked the reason (see Figure 1 below), 88% chose financial capability issues (they could not afford it, hadn’t thought about it, or thought they did not need it). Trust played a larger part for older respondents and those from managers/professionals social grade
- Only one out of five respondents were aware of the upcoming RDR changes (80% are unaware of the move to fee-based adviser remuneration and 81% are unaware of the new adviser professionalism requirements)
- However, a third of people who said they had not used advice would consider it given the RDR changes (Figure 2). Consumers aged 25-34 are even more likely to respond this way.
- If the above result was reflected in the population at large, this could result in a 66% increase in the number of people receiving financial advice. Put differently, it could lead to 11m more adults considering financial advice who are not doing so already as a result of an RDR information campaign.
- Over 70% of those who have received financial advice think the RDR changes will improve their confidence in financial advice, with 15% thinking it will do so “a great deal.”

Figure 1: Reasons for not seeking professional financial advice

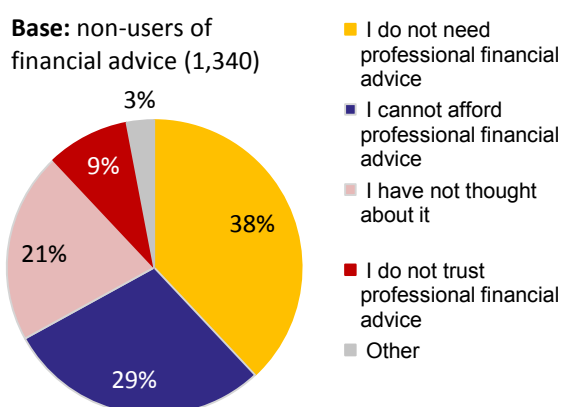
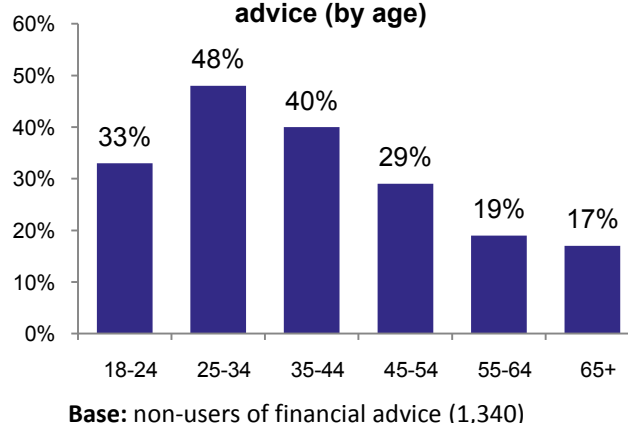


Figure 2: Given these changes, how likely are you to consider financial advice (by age)



¹¹ See for example, [Ignorance reigns as FSA delays awareness drive](#), by Marc Shoffman, *Financial Adviser*, 19 May 2011.

¹² Jackie Wells et al, [Professional Standards & Consumer Trust](#), independent research for the FSA as part of CP09/31, Dec 2009.

¹³ Liz Coyle, [Breaking the Downward Spiral: Why Improving Financial Capability is Important to Our Industry](#), CII *Thinkpiece* no.55 (23 May 2011).

4. Findings from CII Research

Summary

- About the survey
- Detailed findings and their implications
- Who receives advice: a skewed picture
- Awareness of the RDR
- Reaction to the RDR proposals (non-receivers of advice)
- Reaction to the RDR proposals (receivers of advice)
- Barriers to financial advice
- Key message

About the Survey

In May 2011, we ran a survey to review the public's knowledge of and attitudes towards professional financial advice and the RDR. The research was conducted online by Populus for the CII in May 2011. 2,055 individuals participated representing all age groups from 18 to 65+, all social groups and all geographic regions in Great Britain (excluding Northern Ireland).

Detailed findings and their implications

- Our consumer research depicts a retail investment market where **only a significantly skewed proportion of the population seeks financial advice** and knows about the changes that are to come. This is a concern given the Government's aims of improving confidence and engagement with savings and investments across age ranges and social groups.
- Approximately only **one in five** people have received professional financial advice on pensions and investments. The likelihood of someone receiving advice increases with **age**, whilst **social grade AB** (managers and professionals) receives advice the most frequently.
- The key reasons why people have not sought financial advice are its **affordability, its perceived necessity and failure to consider it as an option**.
- **Four out of five people** were unaware of the RDR proposals, with women more likely to be unaware than men. **Social grade AB** was the most likely social grade to be aware. This low level of awareness is concerning given the RDR's aim of improving levels of confidence through a deliberate **step-change** in standards.
- All is not lost however, in the battle to re-engage the public. After being informed of the RDR proposals, **a third** of those who have not received financial advice said they would consider it in future. If this was reflected in the population at large this would lead to **nearly 11 million more people** considering financial advice. Interestingly, **social grade C2** (skilled workers) and the **25-34 age group** were the most positive about the changes.
- Similarly **over half** of those who have received financial advice said that the proposals would increase their confidence in the sector.
- It seems clear then, that key to winning the public's 'hearts and minds' is communication. For the RDR to be a success, the public must understand what changes are afoot.

Who receives advice: a skewed picture

- Only a third of the population have received financial advice.
- The chances of someone receiving advice changes depending on age and social group.
- Men are more likely to receive financial advice than women.

Our finding that **67% of the population** had not received financial advice corroborates previous research undertaken by the FSA which suggested that the figure was close to **70%**.¹⁴

Factors influencing take-up of financial advice

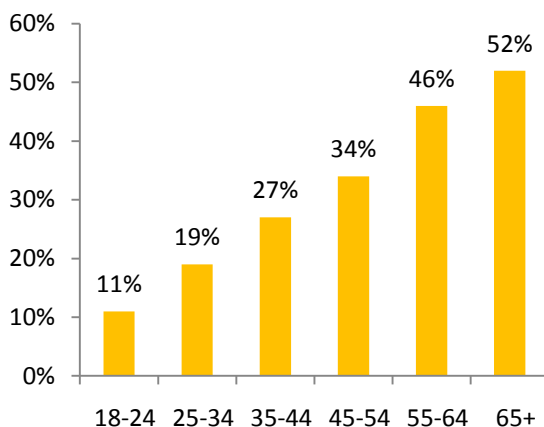
- **Age:** there is a strong linear relationship between receiving financial advice and age. Only 11% of 18 to 24 year olds have received financial advice by comparison to 52% of the 65+ age bracket.
- **Social Grade:** the likelihood of receiving financial advice also appears to be linked to social grade. Grade AB (managers and professionals) are almost twice as likely to have received financial advice than grade C1 (supervisory and clerical).
- **Gender:** proportionally more men than women receive financial advice – **40% of men** by comparison to just **27% of women**.

Q1: Have you ever sought professional financial advice on pensions or investments?

| | |
|-----|-----|
| Yes | 33% |
| No | 67% |

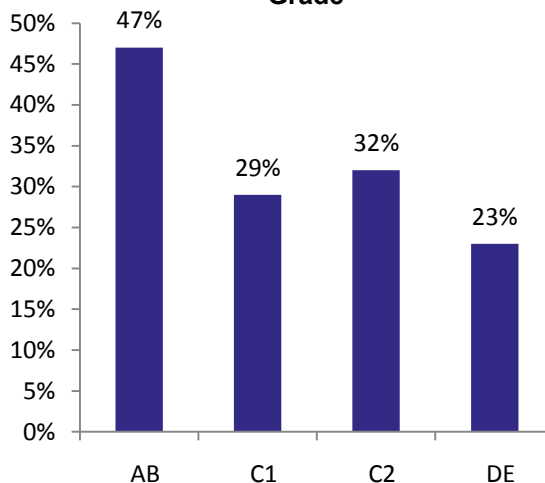
Base: random sample of population (2,055)

Results segmented by age



Base: random sample of population (2,055)

Results Segmented by Social Grade



Base: random sample of population (2,055)

¹⁴ See FSA Consultation Paper CP09/31 [Delivering the Retail Distribution Review](#), Dec 2009 p25.

Awareness of the RDR

- Only one in five respondents was aware of proposals to improve the qualification level and professionalism of financial advisers.
- Only one in five respondents was aware of proposals to require upfront agreement with the customer on the cost of receiving financial advice.

Our consumer research suggests that awareness of the proposed measures for improving the retail investment market is low. **Four out of five** respondents had not heard of the proposals.

Implications:

With one of the aims of the RDR being to improve the public's confidence in financial advice, this lack of awareness about the step-change is worrying. If people do not know about the improvements being made to the market, it is unlikely that there will be a significant shift in consumer confidence following the RDR's implementation.

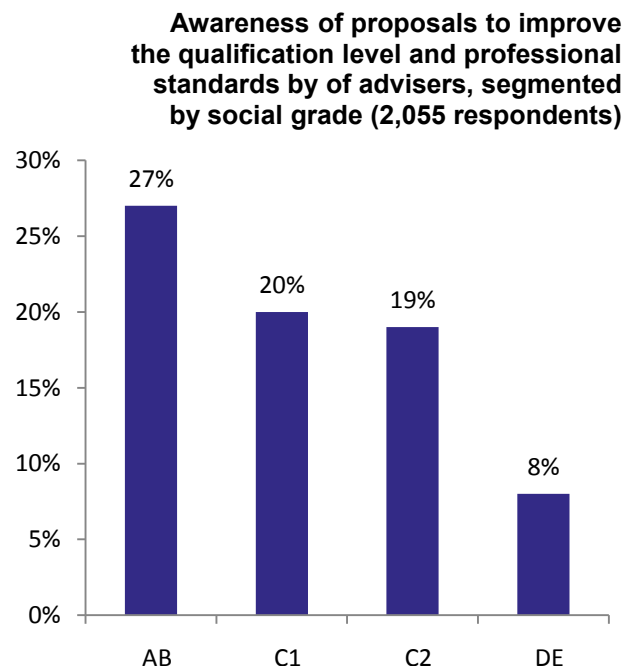
Demographic factors and awareness

- Gender: men are more likely to have heard of the proposals than women, with 23% of men aware by comparison to 16% of women.
- Social grade: some social groups are more likely to be aware about the proposals than others. For example 27% of social grade AB are aware by comparison to just 8% of grade DE (unskilled manual workers).
- **Implications:** These deviations in awareness across demographic groups reflect that those who receive financial advice are more likely to know about the changes than those that don't.

Q2. Are you aware that there are proposals to do the following by December 2012?

| | Aware | Unaware |
|---|-------|---------|
| Improve the qualification level and professional standards of financial advisers | 19% | 81% |
| Require upfront agreement with the customer on the cost of receiving financial advice | 20% | 80% |

Base: random sample of population (2,055)



Reaction to the RDR proposals (non-receivers of advice)

- Those who have not received financial advice were asked whether they would reconsider advice in the future given the RDR related reforms (as set out in Q2).
- A third of respondents said that they would either 'definitely' consider or 'might' consider financial advice in the future.
- It can be extrapolated from this finding that 11 million people across the UK would definitely or might consider financial advice after having the RDR proposals explained to them.

We asked all those who had not received financial advice whether they would consider seeking advice given the RDR related reforms:

- **3% of respondents** said they would definitely consider financial advice whilst **30%** said they might consider it. 67% said that they will 'probably not' or 'definitely not' consider it.
- **48% of people aged 25-34** said they would either definitely or might consider financial advice given the RDR related reforms.
- Social grade ¹⁵ C2 (skilled manual) are the grade most likely to reconsider financial advice given the RDR proposals. 38% of this group said they would definitely or might consider advice in future.

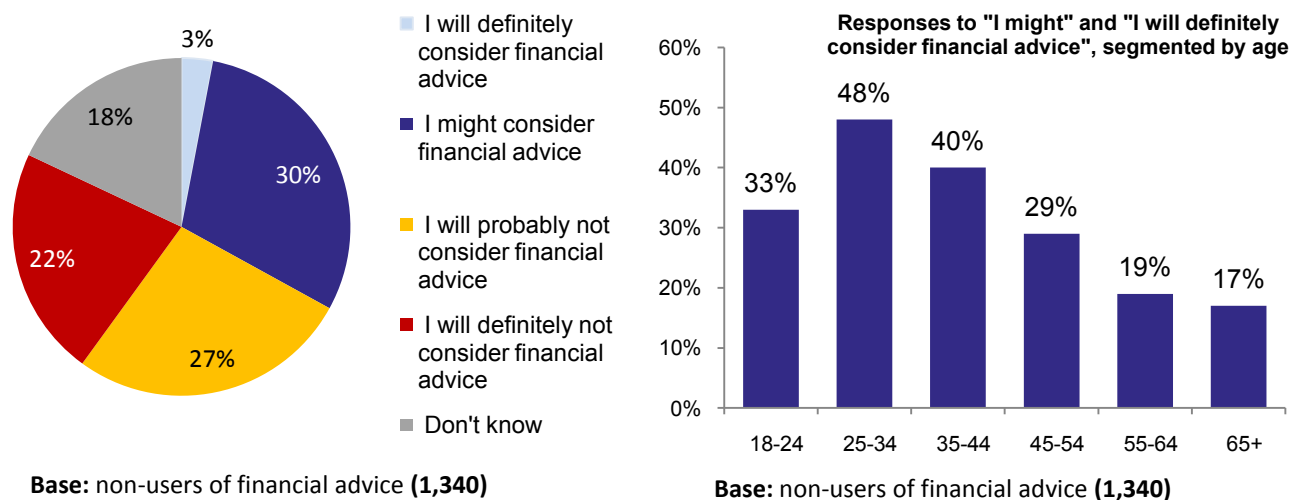
Implications:

Despite the fact that the majority of respondents said they would not seek advice following the RDR, 33% suggested that they might. If 33% of UK's population currently not seeking financial advice, reconsider it in future, this could equate to 11 million more people thinking about financial advice.²

It is also positive that the age group most willing to consider financial advice is the 25-34 age group. These are the people that need to start planning for the future now if they are to secure a decent retirement income.

This result is interesting because it suggests that the RDR related reforms have the potential to re-engage a significant proportion of people from outside of the social groups most commonly associated with financial advice (i.e social grade AB).

Q3. Given these changes [i.e those discussed in Q2], how likely do you think you are to consider financial advice in the future?



¹⁵ Figure was calculated using Office of National Statistics figures for total adult population:
<http://www.statistics.gov.uk/statbase/product.asp?vlnk=15106>

Reaction to the RDR Proposals (receivers of financial advice)

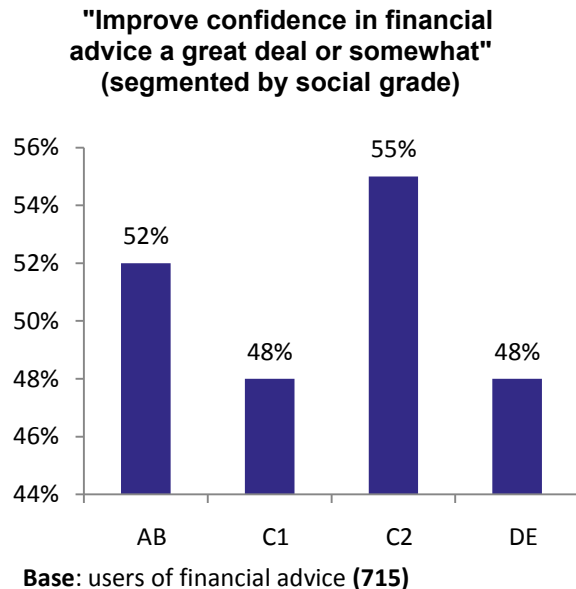
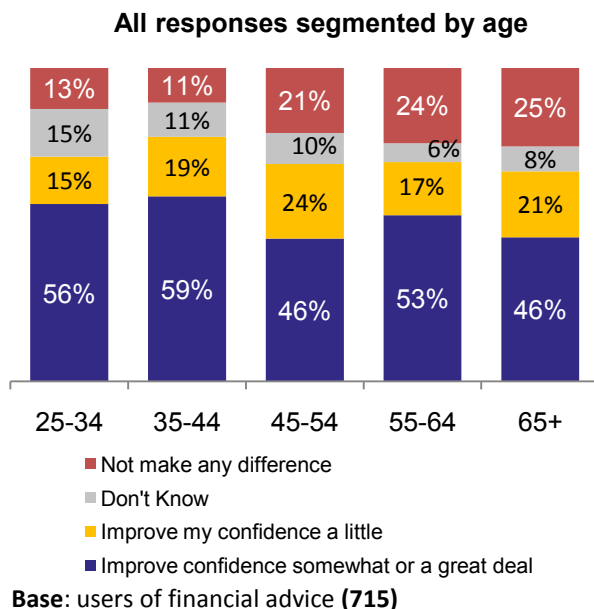
- Over half of those who had received advice said that the RDR proposals would improve confidence 'a great deal' or 'somewhat'.
- 51% said that the RDR proposals will increase their level of confidence a great deal or somewhat.
- Only 20% of respondents said that the proposals would not increase their level of confidence.

As with those respondents who have not received financial advice, the C2 social grade was the most optimistic about the proposals. 55% of this group think that the proposals will improve confidence a great deal or somewhat, by contrast to 14% who do not think it will improve their confidence.

Implications:

This provides further support for the notion that the RDR (if properly communicated to the public) may help to re-engage a proportion of the population less associated with financial advice than other social grades such as AB.

Q4. "Do you think these changes [i.e those from Q2] will..."



The Barriers to Financial Advice

- 38% of respondents said that they do not need financial advice and 29% said that they cannot afford it.
- Over one in five said that they had not thought about financial advice whilst 9% said that trust was the key barrier.

Demographic factors and distrust:

- **age:** the older the respondent the more likely they are to cite trust as a key barrier to advice. Only 6% of 25-34 year olds cite trust as the key factor in contrast to 15% of 55-64 year olds.
- **social grade:** the grade most likely to cite trust as a key issue is AB (managers and professionals). 12% of this group cited trust as the key factor in contrast to 7% of social group DE (unskilled and unemployed).

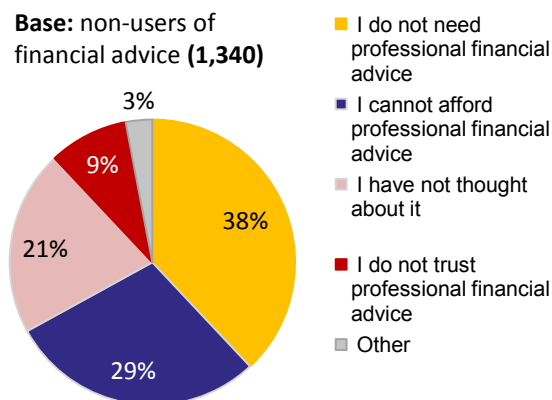
Implications:

- The 55-64 age group is the most likely demographic group to have considered and actively rejected the idea of taking financial advice (just 8% of 55-64 year olds said that they had not thought about financial advice).
- It is interesting that this group cites trust as the key barrier to seeking financial advice more than any other group. This suggests that trust may become more of an issue as people begin to think about financial advice more seriously (or have lost trust following anecdotal accounts from friends or family).

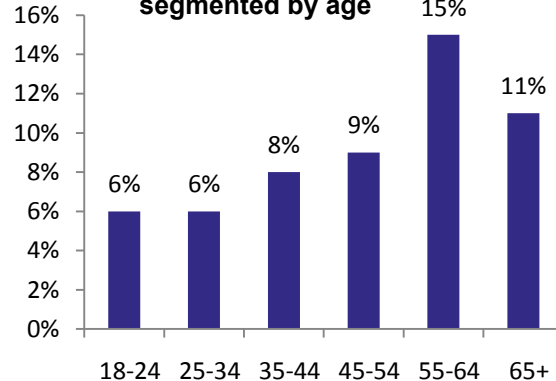
Q 5: Why do you not seek professional financial advice?

Reasons for not seeking professional financial advice

Base: non-users of financial advice (1,340)



Respondents citing trust segmented by age



Base: non-users of financial advice (1,340)

Key message

Our consumer research indicates that few people know about the proposals to reform the retail investment market. This is worrying given the RDR's aim of improving levels of confidence through a deliberate step-change in standards.

All is not lost however in the battle to re-engage the public through the RDR. Our consumer research suggests that, **if properly communicated**, the RDR proposals are likely to increase the number of people thinking about financial advice – including people from demographic groups traditionally less inclined to seek advice. The RDR is also likely to improve the confidence of those who have previously sought advice.

5. CII overall view

We support the formation of the Money Advice Service and the introduction of a Financial Health Check. However we think more can be done, and the Service has an important role to play in promoting the value of advice and communicating the RDR changes to consumers. The Money Advice Service should use its impartial status to lead a public-facing campaign to prepare consumers for regulatory changes to the financial advice market. Our research has shown that such an approach could re-engage consumers with retail financial services thereby improving overall financial capability.

Support the Money Advice Service

Based on our experiences with the PFS-Citizens Advice *MoneyPlan* initiative, we think that “generic financial advice,” if properly implemented, could greatly improve public access to financial services and restore public confidence in this sector and act as an impartial voice to consumers:

- It could help the public make better financial decisions thereby creating a better performing retail market.
- Such a service could also help signpost the mass market to the appropriate form of regulated advice or sales to suit their needs.
- This could in-turn contribute to a more efficient financial advice market.
- We concur with the Government’s argument about the Money Advice Service label. The term “advice” means more in the minds of consumers than the constrained legal definitions.

Money Advice Service Delivery Issues

For a national service to be effective, the CII believes that the following issues must be addressed:

- **Training for advisers:** to ensure that advisers at all three channels (face-to-face, telephone and internet) meet minimum standards of training and competence. In addition to a host of technical knowledge on financial services, those providing the Service must also demonstrate sound soft skills such as empathy.
- **Success criteria:** the extent of follow-up is a key performance measure. Not how many were helped but what percentage take further action as a result of the guidance they are given. The *MoneyPlan* pilot (see below) achieved a follow-up rate of nearly 80% of customers following up the guidance provided.

Preparing Consumers for the Retail Distribution Review

The Money Advice Service should do more to prepare the public for the changes to financial advice under the RDR. We believe the success of the RDR hinges on a coordinated consumer education campaign led by the Money Advice Service to communicate:

- What is happening in 2012 as a result of the RDR, especially the changes to adviser remuneration as well as the new professionalism requirements for advisers.
- Promote the virtues of these regulatory changes including greater levels of professionalism and a more transparent charging structure.
- Educate consumers on the value of advice and the concepts of investment risk. The current content on the Service’s website needs to be considerably enhanced to help consumers better understand these concepts.

Our consumer research indicates that if properly communicated, the RDR proposals are likely to increase the number of people considering financial advice by nearly 11 million adults, including people and demographic groups traditionally less inclined to enter this market. This campaign should be developed and led by the Money Advice Service so that it is launched well ahead of the December 2012 RDR deadline. It should be supported by the regulator and the industry including firms as well as professional bodies.

