Future of the Money Advice Service

Evidence memorandum from United Kingdom Shareholders' Association (UKSA)

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1. About UKSA

1.1. The UK Shareholders' Association is the principal representative body of private investors in the UK and has been so for 20 years. We are a membership organisation funded solely by our members; we receive no public subsidy. We believe in responsible investing. Our interest in financial education for the many is rooted in the belief that given full, clear and unbiased information individuals will understand the benefits of direct equity investment and will understand that the performance of companies in which they invest affects their own future. That will in turn lead to more effective governance of quoted companies.

2. Executive Summary

2.1. Our conclusions are:

- The Money Advice Service (MAS) should have one statutory objective and not two.
- It is not clear that its objectives are being met.
- It has not shown adequate standards of competence, as evidenced by its website which ought to be the flagship of any mass education initiative.
- Its claim to independence is misleading
- There has been a decline in transparency since its new governance structure was implemented in 2010.
- These failures of both planning and execution may be attributable to weaknesses in that structure.

2.2. Our evidence for these assertions is contained in four Appendices:

A. Evidence from the Business Plans and Annual Reports of the FSA and MAS
B. Draft Memorandum of Understanding between MAS and the Financial Conduct Authority (FCA)
C. Detailed critique of the design and functionality of the MAS website.
D. Detailed critique of the content of the MAS website.

2.3. Our solutions, summarised, are to introduce standards of transparency and governance appropriate to a body responsible for mass education, replacing the current standards inherited from the regulator.

3. Commentary

3.1. *Governance*

3.1.1. In its published material the MAS frequently refers to itself as 'independent'. In context that appears to mean 'independent of the regulator' (the FSA as it used to be, the Financial Conduct Authority – FCA – as it will become).

3.1.2. The expected relationship between the two is defined by a six-page draft Memorandum of Understanding (Appendix B) prepared to 'help Parliamentarians and other stakeholders understand what is proposed. It comprises 43 clauses which state, inter alia (refer particularly clauses 11-13), that the FCA will have responsibility for: hiring/firing the MAS board; approving budgets and plans; appointing an independent reviewer of its efficiency and effectiveness; monitoring its activities; and receiving its half-yearly and annual reports, board minutes and periodic performance reports. This describes a relationship equivalent to that of a wholly owned subsidiary in a commercial context, which would not normally be described as 'independent'.

3.1.3. This lack of independence compromises its position as source of independent advice.

3.1.4. There is a symbiotic relationship between any regulator and the industry it regulates. The FSA has historically found it difficult to reconcile its position as a regulator with its responsibilities for consumer protection. This has led it to some unfortunate compromises – for example its refusal, over a period of at least 13 years, to prevent commissioned product salesmen from describing themselves as 'advisers', thus promoting the fiction that free advice was available and undermining the market for genuine paid advice.

3.1.5. Trust is an essential characteristic for a successful public advice service. So long as the MAS remains under the regulator there will always be a suspicion that the interests of the industry are taking precedence. An industry seeking to shift product does not necessarily welcome an educated consumer.

3.1.6. We refer also to our evidence previously given to the Lords Select Committee on the Financial Services Bill 2000, which protested the clauses of this statute enshrining responsibility for consumer education with the FSA, and therefore with the regulator.

3.2. Statutory Objectives

3.2.1. The MAS has two statutory objectives:

- to enhance the understanding and knowledge of members of the public of financial matters (including the UK financial system).
- to enhance the ability of members of the public to manage their own financial affairs.

3.2.2. The first objective is inappropriate for a quasi-public body. There is no public interest need for the public (as a whole) to understand financial matters – least of all the UK financial system. Substitute 'health' or 'educational' or 'parliamentary' for the word 'financial' and the intent is equally desirable but there is (rightly) no equivalent publicly funded body to carry it out. It is (rightly) left to the diverse but efficient informal networks by which people learn – media, the classroom, personal experience and informal advice.

3.2.3. The second objective is, or should be, the key one – indeed the only one. Members of the public need to be able to manage their personal affairs as a matter of social necessity, and that includes their financial affairs.

3.3. Strategic objectives

3.3.1. The MAS has published three annual business plans since its formation (one under its statutory name of 'Consumer Finance Education Body'), and these include its own deconstruction of its statutory objectives. These have tended towards the visionary and away from the concrete (Appendix A).

3.3.2. The most recent major planning document is a supplementary 2012/13 'Debt Advice Business Plan' covering an additional budget of £34.5million. The general description of its objectives is:

'Our role is to bring coherence and consistency, while enabling a more efficient and effective service for customers. We need to ensure that debt advice reaches more people with a more consistent offer and improved long term outcomes. We will work to co-ordinate provision from other debt advice providers, setting standards, ensuring effective triage, and monitoring performance……'

3.3.3. The featured numerical target in the 2012/13 Plan is *'reaching 11.3 million people by 2016/17 out of the 19 million assessed as capable of benefiting from the service'*. The FSA 2009/10 Plan, reporting in the last year of its 5-year Financial Capability programme that preceded the spin-off of the MAS, noted: '*The programme is designed to reach 10m people by 2011, the end of our five-year strategy'.* The MAS referred to themselves, in their first Plan, as 'previously a division of the FSA' (Appendix A).

The word 'reaching' has never been defined. It is not clear in what way the 'reaching' of 11 million people in 2016 differs from the 'reaching' of 10 million people in 2011 sufficient to justify a likely spend of £250million (excluding debt advice) in that time.

3.4. Delivery

3.4.1. To review the extent to which the MAS, and the Financial Capability Project within the FSA before it, have delivered against their plans and objectives we have analysed the information in their Business Plans and Annual Reports (Appendix A).

3.4.2. In contrast to those of the FSA, the Annual Reports of the MAS, if they exist, have not been made freely available to the public. We have therefore relied on occasional references to the past in its three Business Plans.

3.4.3. We have also critiqued the MAS website as an important part of its delivery, and the only part available to general public view. In our view it is inadequate both in terms of its design and functionality (Appendix C) and content (Appendix D). It also duplicates, in a noticeably less attractive way, commercial websites operating in the same field.

3.4.4. We submit this critique as evidence that raises questions about the effectiveness of the whole. We are unable to find any reference to external peer reviews or other quality processes. There is mention of a Consumer Forum but no reports of its proceedings and we assume its purpose is consultation not quality control.

3.4.5. A 2010 review of the Pathfinder Money Guidance service (a trial for the full MAS) by the Personal Finance Research Centre at Bristol University noted that 9% of the advice given in face-to-face and telephone interviews was incorrect.

3.4.6. We note that numerical measures have tended to be of outputs, not outcomes (e.g. 'reaching' above). They are not consistently reported in the form of result vs. plan.

3.4.7. We have no comment on the administration of the activities the MAS has chosen to undertake, but we question the cost effectiveness of the activities themselves – particularly a marketing budget of £20million (45% of the total £46.3million) for 2012/13. This is a free service that, if it's satisfying a need, ought to sell itself.

4. Solutions

4.1. UKSA has always argued for a consumer protection body away from the influence of the industry and the regulator. We recognise that that battle has, for the time being, been lost.

4.2. A lesser solution would be to separate the MAS from the regulator.

4.3. To make improvements without such radical changes, the MAS needs to be regarded more as an educational resource whose subject happens to be personal money management, and not as a branch of the regulator whose field of interest happens to be education. It should have governance processes that ensure that it is transparent, accountable and acts in the interests of the community as a whole. Specifically:

4.3.1. It should publish annual reports.
4.3.2. It should expose itself to public scrutiny of its reports, perhaps through an AGM-style pubic meeting.
4.3.3. It should publish its Board Minutes.
4.3.4. It should have an advisory panel to review the content of its educational material. The ideal panel would be a blend of teaching, academic and community experience, independent of both the industry and the establishment.
4.3.5. It should have measurable targets for outcomes, not just outputs, against which it should report publicly

This report has been prepared by the UKSA policy group. The principal author is John Hunter MA FCCA. Mr Hunter is currently Chairman of the Investment Committee of the pension fund of a FTSE100 company and has substantial experience of corporate financial matters and personal investment in both the UK and USA.

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