



HMT / DWP Public financial guidance review: Consultation on a single body

ABI response to consultation

13 February 2017

About the Association of British Insurers

The Association of British Insurers is the leading trade association for insurers and providers of long term savings. Our 250 members include most household names and specialist providers who contribute £12bn in taxes and manage investments of £1.6trillion.

Executive Summary

We support the government's proposal to create a Single Financial Guidance Body (SFGB). Delivering money, pension guidance, financial capability and financial education initiatives through one body will offer clarity, and engender a strategic approach to supporting consumers where needs and financial understanding are often interlinked.

As we made clear in our response to the previous Consultation, government should explore how it can take this as an opportunity to enhance guidance, not just focus on ensuring that the current coverage and services are maintained.

Insurers have a significant stake in the success of an effective guidance landscape, and we look forward to engaging with the Treasury, the Department for Work and Pensions (DWP), and other stakeholders as the design and implementation of the new arrangements progress. Our key messages are:

Scope of the SFGB

- We agree that the proposed remit is broadly the right one, but urge that a suitable balance is needed across the areas of focus, reflecting consumer demands and needs. We also support inclusion of the following as part of the SFGB's remit:
 - A holistic approach to improving financial capability and education, with a focus on preventing people from falling into financial hardship in the first place. It should encourage a more financially resilient society where individuals are better prepared to weather life events by protecting themselves against financial loss.
 - Government should consider how guidance can be enhanced by providing specialised guidance in relation to "insistent clients" and robust guidance to customers who are at risk of transferring funds from their pension to fraudulent or scam investments.

- A stronger focus on raising awareness, and providing information and guidance to people on the need to prepare for social care. It is particularly important that the SFGB helps improve routes to advice on social care for those that need it.
- Capacity to provide information and guidance on key considerations beyond pensions when considering retirement, such as property, and other long-term savings vehicles, including the Lifetime ISA (LISA).

Design

- The SFGB should have some flexibility to use its funding within a robust governance framework. Levy payers must be assured that they are getting a fair deal given the holistic nature of the guidance it will deliver versus the ring-fenced nature of the three streams which will fund it.
- Government should consider how a portion of the SFGB's funding could be earmarked for supporting the Pension Dashboard, given the potential for the Dashboard to boost consumer engagement and the need for pension guidance and education.

Implementation and transition

- The current public guidance providers employ many talented individuals, often on a voluntary basis with professional industry and advisory backgrounds. We would want to see the same calibre of volunteers and staff providing guidance at the SFGB. It is important that those providing pensions guidance are suitably expert, given its intricacies.
- The commitment to ensuring a smooth transition with enough time for industry to update communications and disclosure is welcome. Relevant information and detail on the SFGB must be communicated clearly to industry at least 6 months in advance of its launch.

Strategic alignment with policy and regulatory developments

- The SFGB should work strategically with industry and the third sector. It should also focus on the workplace as a conduit to improving employee financial capability and resilience, taking into account the role and needs of SME's. It should also consider how to reach the self-employed.
- The delivery of the SFGB should be strategically aligned with the delivery of the Financial Advice Market Review (FAMR) and Improving Lives: The Work, Health and Disability Green Paper. With regard FAMR, alignment is crucial as the scope of guidance the SFGB will be able to offer will be impacted by the outcome of the HMT Consultation on amending the definition of financial advice, and forthcoming FCA Consultation on new guidance to support firms offering services that help consumers making investment decisions without a personal recommendation.

Increasing guidance take up

- We support the SFGB working to raise its profile in a cost effective way. Industry will engage with government to explore options for effectively and efficiently enhancing signposting arrangements.

Consultation questions

1. Do people with protected characteristics under the Equalities Act 2010, or any consumers in vulnerable circumstances, have particular needs for public financial guidance or difficulty finding and obtaining that guidance?

- 1.1. We highlighted in response to the first Public Financial Guidance Consultation that vulnerable consumers will have particular needs that must be understood and accounted for as part of designing and delivering the SFGB.
- 1.2. There is no one definition of what constitutes a vulnerable consumer. Vulnerabilities that exist will range from challenges relating to physical access, to age related physical and psychological health conditions, or people who are bereaved or exposed to exceptional stresses.
- 1.3. The focus should be on understanding and identifying the range of vulnerable consumers who may need to use the SFGB, appreciating that this may require distinct, tailored and flexible approaches to guidance. This means considering both the content and the channel by which guidance is delivered. For example, face-to-face or telephone based guidance may be more suitable than digital channels for these consumers.
- 1.4. The FCA is undertaking work associated with consumer vulnerability and the Ageing Population. The Government should look to learn from this work and use it to inform its approach to building a service that is adept at identifying and helping vulnerable consumers get the support they need.

2. Do you agree that these areas capture what the broad role of the SFGB should cover?

- 2.1. We agree that the proposed remit of the SFGB is broadly appropriate. However, we would like to see a clearer clarification of its role in providing pension guidance, and believe that a cross-cutting need focussed on building financial resilience is also required. In addition, it should consider social care needs, and a holistic approach to offering guidance across property and other savings vehicles when it overlaps with pensions and retirement. We expand on this below.
- 2.2. We are concerned that the Consultation feels somewhat balanced away from pensions and retirement, especially compared to the content of the previous Consultation. Indeed, there appears to be some inconsistency as to whether it will offer guidance on occupational pensions. Paragraph 2.6 states that it will cover

occupational or personal pensions, whilst paragraph 2.8 only refers directly to private pensions, and building on the good work of the current guidance providers. We acknowledge that this may be a result of the previous Consultation having more of a slant toward pensions and retirement, but we would want government to be completely clear that the new body will be able to answer all pension and retirement related questions in one place. It must cover information and guidance on the range of pension-related topics that are currently covered by Pension Wise, MAS and TPAS.

2.3. As we argued in response to the previous Consultation, we think that the proposed changes to the guidance landscape represent a singular opportunity for going further in enhancing information and guidance provision. As such, we would like to see consideration of the following:

- ***The SFGB should offer specialised guidance and authorisation for ‘insistent clients’ in specified circumstances*** – With ongoing challenges surrounding ‘insistent clients’, the SFGB should consider adopting an approach where they could undergo a special guidance session, including risk warnings and relevant guidance. Following this guidance session, where ‘insistent clients’ still wish to proceed, providers would be able to carry out a customers’ wishes in the certainty that the risks have been highlighted, alongside appropriate guidance. The ABI has previously recommended that Pension Wise or TPAS be given the power to deliver an independent and specialised guidance session, in place of legislative requirements to take advice.¹
- ***A cross-cutting focus on building financial resilience*** – The SFGB should seek to adopt an overarching aim of preventing financial hardship and building societal resilience to life events and decisions that are likely to trigger financial difficulty. This means using its financial capability and education function to actively encourage positive behaviour, such as saving for the future, and protecting yourself and family from the consequences of potentially destabilising life events. This is vital, as individuals and households in the UK are among the most financially exposed in the developed world.² Serious illness and death often lay bare the fragility of households in the face of economic shocks. Life insurance, critical illness and income protection products all have an important role to play, both in helping to relieve financial distress and providing practical support to people at a time of severe need. This focus should not just be on the individual, but also on supporting employers who can help play a role in supporting their employee’s financial health.
- This approach should be built upon an assessment of life stages and events, where big financial decisions or events can trigger financial hardship, or start consumers on the pathway to future financial hardship. This should be aligned with work being undertaken by the Financial Advice Working Group on rules of thumb and nudges, which is considering when such interventions should be deployed. The SFGB should

¹ ABI, (June 2015) ‘Pension Freedoms Letter to Chancellor and FCA’
https://www.abi.org.uk/~/_/media/Files/Documents/Publications/Public/2015/Pensions/Pension%20Freedoms%20Letter%20to%20Chancellor%20and%20FCA%2019%20June%202015.pdf

² Swiss Re (2015) European Insurance Report 2015

look to identify these events and explore how its financial capability, education and broader strategic role (see our answer to question 4) can be leveraged to provide helpful information and guidance to consumers.

- ***Raising awareness and providing guidance on social care*** - Pension Wise and MAS already offer information and guidance on social care, but there needs to be an increased focus on this area by the SFGB. There are fundamental issues with individuals' understanding and awareness of the need to plan and pay for social care costs. Arguably this is exacerbated for social care, which faces the triple threat of increased customer inertia, underestimations of longevity and under-saving for retirement (excluding potential care costs), as well as overestimation of state social care support provision. This demonstrates the need for considerable improvements to the provision of guidance and advice.
- Insurers have an important role to play in the care debate and have been positively contributing to it over the past few years. But, industry can only play its role effectively if individuals are aware of the fact that they may have future care needs and understand how much these needs are likely to cost. We therefore see a real need for the SFGB to promote awareness of and access to guidance on social care. In particular, it should help improve routes to advice, to ensure that people are better prepared for social care needs.
- ***Provide guidance on property, long-term savings vehicles and associated issues*** – Consumers' retirement savings and retirement considerations are often tied to other assets, most notably property. For most people their home is the most significant asset they have, and many individuals' retirement plans are connected to the value of their home or decisions relating to their housing arrangements, such as downsizing. We therefore believe that it will be necessary for some resource to be required to cover queries and guidance which relates to common property issues, where they overlap into questions about pensions and retirement as well.
- For the same reason, it will be important to consider other investment and savings vehicles. This is especially the case post-retirement, in situations where a consumer's pensions or savings remain invested, and where guidance that helps explore attitudes to risk could be helpful.
- Following the pension reforms, we would also support the SFGB having some capability to discuss individuals working and career options in retirement. This is important given many people will choose to carry on with work post-55, but may not fully understand the options open to them and implications of carrying on with work, whilst also accessing their pension.
- ***Provide guidance on the LISA*** - Consideration will need to be given to the guidance needs of younger consumers interested in, or who hold a LISA. The LISA is a welcome addition to the savings landscape, but it will make long-term savings decisions more complex. Access and signposting to guidance and advice on the options available is therefore crucial so that consumers can make effective choices.

- Guidance around the LISA will need to focus on ensuring that employees understand that the combined value of pensions tax relief and employer contributions as part of automatic enrolment is significantly greater than the value of the government bonus available through the LISA. In addition, consumers must understand the difference between saving in equity and in cash as well as the value of leaving funds to compound over time. It will be detrimental to people's retirement prospects if consumers do not understand how long-term savings grow over time and invest too heavily in cash. The scope should therefore include LISA, as well as automatic enrolment.
 - **Guidance for consumers on scams and fraud** – We strongly support the decision to include a focus on scams and fraud as part of the SFGB's remit. As well as raising awareness and providing information to consumers, we would like to see a formal process for providers who want to block transfers to protect their customers (because of concern about the receiving scheme) to refer their customers to the SFGB to receive impartial guidance on the risks from transferring funds to potential scams and fraudulent investments. By formalising this process, another level of risk warnings and awareness would be added on top of that already given by the provider, and customers may value the impartial nature of the guidance they receive. This should be considered in the context of the potential outcome of the HMT Consultation on pension scams.
 - **Role in relation to the development of the Pension Dashboard** - MAS and TPAS have been playing an important role in the development of proposals related to the Pensions Dashboard. We would argue that the new body should continue to play an integral role in the progress of this important project, and should certainly play a key role once it is operational, not least in signposting to the dashboard. We highlight that we would like consideration given to earmark funding for the SFGB to be used for the Pension Dashboard in our answer to question 9.
 - Finally, although it is sensible to agree a broad remit at this stage, government should allow some flexibility in terms of what the new body will cover going forward, given the shifting needs of consumers, as markets change, and evidence of particular guidance needs emerge. For example, one area that the SFGB should explore in terms of its remit is third party access arrangements. The FCA is currently looking at this as part of its broader work focused on the ageing population. The government should engage with the FCA to explore whether the SFGB can play a role in raising awareness and offering guidance on supporting consumers with third party access arrangements, including powers of attorney.
- 3. Do you agree that the FGB's financial capability initiatives should focus on 'the squeezed' and 'struggling'? / Do you agree that the FGB's financial capability initiatives should focus on priority groups such as those who are most in need of support to build resilience?**
- 3.1. Whilst we agree that it is sensible for the SFGB to direct its financial capability initiatives toward segments who will require them the most, we do not necessarily

agree that this is the right stage for the government to be pinning down an answer to this specific question in detail.

- 3.2. The SFGB should take a holistic view of the services it will deliver, be they directly or through commissioning, focussed on preventing financial hardship in the first place. By taking this approach it will be able to prevent individuals and families from being squeezed in the future. It must ensure that its resources are effectively targeted on life events that present financial challenges or can be destabilising. It must work across demographic groups, including the welcome focus on education for younger cohorts, but also ensuring support for working age people, helping them prepare for and resolve financial difficulties associated with particular life events, such as ill health and unemployment. This means offering guidance to those exploring their need for products focussed on protecting consumers financially.
- 3.3. It is important that the SFGB's financial capability role builds on the work already undertaken by MAS, in part through the UK Financial Capability Strategy. Once the SFGB is established, it must have the flexibility to review the focus of these initiatives and re-calibrate them where needs change.

4. Do you agree that the SFGB should have a strategic role, working with the financial services and pensions industry and third sector organisations of the guidance sector?

- 4.1. We strongly agree that the SFGB should have a strategic role and have industry engagement built into both its design and operation. The ABI and industry have long and constructive relationships with the current public financial guidance providers around a range of shared issues and interests. This includes the UK Financial Capability Strategy, collaboration on designing simpler and more consistent retirement language, and on delivering the Pensions Dashboard. We also worked with the FCA, Treasury, TPAS and Citizens Advice to help develop Pension Wise, and have continued to play a key role in ensuring that it remains visible.
- 4.2. We would urge government to consider how the design process can have wider business engagement built into it, reflecting the range of organisations who can help provide support, and signpost and communicate information.
- 4.3. With the UK labour market at over 31 million employees and demand for financial support in the workplace strong, the new body should ensure that the workplace is used as a vital conduit for delivering support aimed at improving financial capability and resilience. This should account for the fact that over 99% of all private sector businesses are small or medium-sized (SMEs). Consideration about how these businesses can be supported in helping their employees is also important. Similarly, with almost 5 million people self-employed in the UK, the SFGB must explore how this demographic can be supported, especially given that they can sometimes be more exposed to financial shocks.

- 4.4. This approach is in line with the focus on the role of the workplace in the FAMR, and Improving Lives: The Work, Health and Disability Green Paper. The latter in particular highlights that government will be running information campaigns on key topics around health and work to help employers access existing information and adopt good practices. The SFGB could therefore look to play a key strategic role in helping employers support their employee's financial health. Protection insurance is a way in which the workforce can be better supported by employers, and improving take up of these products could make a strong contribution to the successful delivery of the Government's policy objectives in the work and health arena, including closing the disability employment gap and reducing long term sickness absence.
- 4.5. More broadly, the delivery of the SFGB must be strategically aligned with the FAMR. Vitally, the scope of the guidance that the SFGB will offer is interlinked with the work that the Treasury is undertaking on the amendment of the definition of financial advice to reflect the MiFID definition, and on the forthcoming FCA consultation on guidance services.
- 4.6. Further to this, the design needs should reflect the FAMR recommendations relating to clarification of information required as part of the fact find process, and considerations for verifying a fact find performed by a third party (for example, by the SFGB). In addition, they should also reflect recommendations which require the new Financial Advice Working Group to develop a fact sheet aimed at promoting employee financial health, and development of rules of thumb and nudges, and potential new terms to describe guidance and advice. The latter recommendations should be used to design ways to nudge consumers to use the new service, based upon an assessment of life events when guidance and support will likely be required. As part of any consideration on new branding, it should be made clear in the new body's name the type of service it is offering to prevent any confusion.
- 4.7. Part of its strategic role should be focussed on ensuring that the SFGB's function is aligned and works with existing industry customer journeys. Providers invest significant resource into improving and developing new approaches to their customer journeys. This incorporates communication of information required by regulation, such as annual statements and wake up packs, as well as communications across different channels which are not required by regulation, but provide supporting information and guidance to help engage and inform customers. These approaches are based on assessment of customer behaviour, so it is important that the SFGB integrates with and supports these journeys. A disjointed or inconsistent approach could confuse customers and result in poor outcomes.
- 4.8. The SFGB should align the language and terminology it deploys in relation to pension and retirement guidance with the Making Retirement Choices Clear guide. This guide is based on consumer research undertaken by MAS and ComRes, and standardises the language used to describe retirement options so customers can understand and compare products more easily without having to make sense of

technical terms.³ By being consistent in the language we use, we can help support better consumer understanding and engagement.

4.9. It is critical that the strategic role is geared to preventing duplication of effort. In areas such as research, industry has a wealth of research it can in most cases share, and public financial guidance providers have a significant amount of information on customer queries which can be of use to industry.

5. How might the SFGB develop its understanding of what works and usefully contribute to sector wide research?

5.1. We support the SFGB having a research role, especially in the areas of deciding where to target initiatives and in assessing what works, as noted above. It should be geared toward not duplicating research that is already available from other sources.

6. In what ways could the SFGB co-ordinate and add value to the provision of financial education?

6.1. We support the SFGB having a role in improving and co-ordinating financial education. Industry supports initiatives aimed at building young people's financial capability. We would like to see a particular focus on providing educational initiatives geared toward highlighting the importance of saving for the future and being financially resilient.

6.2. Efforts to improve financial education should not just begin and end here. People will continue to need financial education at many stages of their lives, be it when starting a family, in work, or preparing for and being in retirement. We would support a broader approach to considering financial education needs across all age groups, reflecting critical life stages when financial education will be most useful. It must also be adaptive to reflect changes to markets, such as the pension reforms for example, so that it remains relevant.

6.3. We agree that the SFGB should have a focus on evaluating the success of its projects, with a specific focus on impact and value for money. The commitment in paragraph 2.20 to the publication of research, analytics and evaluation for use by other organisations is welcome. It would be helpful if the government could clarify if this will be made available to industry, who would find such information useful in assessing their own approaches to consumer engagement.

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https://www.abi.org.uk/~/_media/Files/Documents/Publications/Public/2016/Pensions/Making%20retirement%20choices%20clear%20Nov%202016.pdf

7. Are there other delivery channels that the SFGB should consider that would be effective for delivering to consumers?

- 7.1. We support the SFGB taking a multi-channel approach to providing guidance and engaging with consumers.
- 7.2. Consumers should be able to access guidance in ways that suit their needs, including through digital, phone and face-to-face channels. This approach will allow consumers to use the service in a way that they are comfortable with, and also help to identify and engage consumers who may have vulnerabilities and who require a more tailored approach.
- 7.3. We support the SFGB signposting consumers to regulated advice when appropriate. It must be ensured that consumers needing fee paying advice are signposted to FCA regulated and qualified advisers.

8. How should the SFGB ensure that it engages consumers at the right time for them?

- 8.1. We agree that it is important that industry and government work together to increase the take up of guidance in general, including thinking about how the SFGB can promote itself in a cost effective way. The ABI would welcome the opportunity to work with the Treasury, DWP, and with individual firms, during the SFGB's design phase to identify how to create a positive norm for guidance take up and consumer engagement.
- 8.2. Paragraph 3.10 states that government thinks it is important that consumers are signposted to the SFGB by industry, and that it will explore opportunities to do more to provide information at key life stages, including through automatic enrolment.
- 8.3. Industry already effectively signposts to Pension Wise. The highest proportion of those who use the service have heard about it from their pension provider (50.6%), compared to just 7.6% through advertising.⁴ We therefore agree that effective signposting is both important and a powerful driver of Pension Wise take up. Further efforts aimed at enhancing signposting arrangements must be undertaken in collaboration with industry, in a joined up, and proportionate way. Providers invest significant resource into designing, testing and deploying customer journeys, as well as reflecting changes to existing disclosure and communications as required by regulation. We support an approach to enhanced signposting that compliments provider customer journeys (see paragraphs 8.9 – 8.11 on considerations for transitional arrangements).
- 8.4. Government should be cautious in the way it utilises the point of automatic enrolment as a stage at which to signpost to the SFGB, as noted in paragraph 3.10. There is a major challenge in how we can increase contributions through automatic enrolment without increasing the number of people opting out, so we must approach

⁴ <https://www.gov.uk/performance/pension-wise>

this carefully. As we have stated, we do however support an approach based on assessing potential life events where access to information and guidance will be heightened.

- 8.5. Any approach to enhancing signposting arrangements must be joined up with initiatives already underway. The FCA will shortly be publishing the results of its field testing of behaviourally trialled wake up packs. The government should take account of this and not seek to duplicate effort. In addition, the government should seek to join up with work being undertaken by the Financial Advice Working Group which is currently looking at the development of rules of thumb and nudges, including at which point they should be deployed. This should help provide insight to inform when consumers can best be signposted to engage with the SFGB on particular issues and challenges.
 - 8.6. In the future, there is a clear interest in seeing the SFGB effectively signpost to the Pensions Dashboard, and vice versa. Government should consider what further synergies can be explored between the Dashboard and SFGB.
 - 8.7. As we highlight in answer to question 4, the SFGB must also consider how the wider business community can help to boost engagement with consumers, and help signpost to the SFGB.
 - 8.8. We support the government's commitment in paragraph 3.11 to work with industry in good time to update communications to reflect the creation of the SFGB. The communication of information associated with the set-up of Pension Wise was communicated too slowly, so this commitment is welcome.
 - 8.9. To ensure a transition that works for consumers and industry, we would support an additional commitment to an appropriate transitional period for industry in which to phase out current literature and communications, and phase in the updated versions. This should mean agreeing and communicating to industry the new name, address, phone number and website details at least 6 months in advance of it going live. This should give enough time to amend relevant communications and literature and make required system changes. The SFGB should also take over the production of the printed guides that MAS currently produce, such as the "*Your pension: it's time to choose*" guide, which is required for wake up packs, in advance.
 - 8.10. The FCA should be aware that they may need to amend their rules where appropriate to reflect the creation of the SFGB, especially with regard to signposting and requiring particular information in disclosures. This may require consultation by them, which again needs to be undertaken in good time.
- 9. Do you agree that the SFGB should be able to exercise some flexibility in the way funding is directed?**
- 9.1. We agree that the SFGB should have a degree of flexibility in how it uses its funding, within a robust governance framework, supported by a clear value for money objective.

- 9.2. Whilst we support this flexibility, it is clear that the government will need to understand how the current three funding streams will operate when funding a single body. Some levy payers will currently be paying into all three streams, whilst others will not. This may necessitate that some levy payers cross-subsidise activities which do not “*fund activities of direct benefit to their organisation*”. Providers, for example, will currently pay toward the provision of information and guidance on pensions and retirement, but under the new arrangements, it is plausible that they will end up funding debt advice as well.
- 9.3. The government will need to carefully consider this funding arrangement as part of the SFGB’s design process to ensure that all levy payers get a fair deal from the final arrangement.
- 9.4. Finally, we believe that the government should explore earmarking a proportion of the levy for Pension Wise and TPAS to support the Pension Dashboard. The ABI is currently working with the wider industry and technology partners on the delivery of a Pension Dashboard prototype on behalf of HMT. However, future phases of the project, and actual delivery, will require a broader funding model. A portion of the existing funding streams could be used to support the Dashboard infrastructure. This is because Dashboards will deliver benefits to the SFGB by providing the information consumers need to engage, and with it the foundation for guidance delivered by the SFGB.

10. Would these proposals have any impact on the delivery of public financial guidance in Scotland, Wales or Northern Ireland?

- 10.1. We do not have any comment.

11. Do you have any other comments about the proposed delivery model and consumer offer?

- 11.1. The current public financial guidance providers benefit from having many committed and talented individuals and volunteers providing guidance to the public. Many come from professional backgrounds, including industry and advisory, and we would not wish to see the benefit this brings lost as we transition to the SFGB.
- 11.2. Finally, it may be worth considering whether strategic and collaborative working between the SFGB, third sector and industry could be enhanced by allowing secondments or shadowing of staff between bodies. This could help build understanding between staff from all three areas and offer useful experience.