



HM Treasury

# **The government's response to the independent review of the Money Advice Service**

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March 2015





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# 1 Introduction

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**1.1** The Money Advice Service (MAS) was set up by the government to give consumers the support they need to manage their money well. This is a very important strategic goal – there are a wide range of social and economic benefits from free, impartial consumer advice and education on financial matters. Informed and empowered consumers are more confident and resilient, and are vital to ensuring well-functioning and competitive retail financial markets.

**1.2** In May 2014 the government launched the Independent Review of MAS (“the Review”), to be led by Christine Farnish, and asked that it report to the Economic Secretary to the Treasury with its recommendations by the end of the year.<sup>1</sup> The Review was tasked with:

- making an assessment of the need for consumer education and advice, including how this may evolve as, for example, individuals have greater freedom over their retirement options, and the role that MAS should play in the wider consumer education and advice landscape
- assessing how effectively and efficiently MAS is meeting this need through its current approach and delivery models
- recommending any changes to MAS’s approach and delivery models that would enable it to better meet this need

**1.3** The government welcomes the Review’s final report, which it has published alongside this response.<sup>2</sup>

**1.4** The substantial majority of the Review’s recommendations are primarily for MAS, with a small number directed at the government and the Financial Conduct Authority (FCA).<sup>3</sup> The government notes the responses published alongside this response by MAS and the FCA;<sup>4</sup> it welcomes the commitment made by both organisations to fully consider the Review’s findings and set out the actions they will take to address the recommendations aimed at them.

**1.5** The government’s position on these responses is set out in Chapter 2, along with our response to the Review’s recommendations for the government, and next steps.

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<sup>1</sup> Further information, including the Terms of Reference, can be found at <https://www.gov.uk/government/news/independent-review-of-money-advice-service-launched>.

<sup>2</sup> The Review’s final report can be found at [www.gov.uk/government/publications](http://www.gov.uk/government/publications).

<sup>3</sup> The FCA has oversight responsibility for MAS to ensure it is capable of exercising its functions. Its responsibilities include appointing or removing members of the MAS Board (on terms that secure the independence of MAS’s function and subject to the Treasury’s approval for appointment or removal of MAS’s Chair or Chief Executive) and approving the annual budget and business plan.

<sup>4</sup> MAS and the FCA wrote to the Economic Secretary to the Treasury with their responses, which they have published on their respective websites ([www.moneyadvice.org.uk/en](http://www.moneyadvice.org.uk/en) and [www.fca.org.uk](http://www.fca.org.uk)).





# 2 Response to the review's recommendations

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**2.1** The Review made recommendations in three main areas, which are covered in turn in this chapter, along with next steps:

- debt advice
- money advice
- governance, accountability and coordination

## Debt advice

**2.2** The government believes it is important that individuals struggling with debts have access to free and impartial debt advice to help them get their finances back in order. Debt can affect people of all ages, backgrounds and a wide range of circumstances, and is often linked to a range of other problems in society, including family breakdown, homelessness and mental health issues. MAS plays a crucial role in funding and co-ordinating access to high quality free debt advice, to help consumers take the action needed to return to a sustainable financial situation.

**2.3** MAS is now the largest single funder of free debt advice in the UK, and the Review notes the strong progress MAS has made since it took on its debt advice responsibilities in 2012. The Review rightly states that the challenge now is to ensure that more people can be helped in as effective and efficient a way as possible.

**2.4** The government welcomes the Review's recommendations – building on the findings of the 2013 NAO report<sup>1</sup> – on how MAS can improve consumer awareness of free debt advice, and drive further and continued improvements in the quality, reach and cost-effectiveness of MAS-funded free debt advice.

## Recommendations for MAS

**2.5** The Review has made a number of recommendations for MAS, including getting creditors to spot debt problems early and use 'nudge' processes to refer indebted individuals into advice – this will be key in helping prevent debt spiralling out of control. The Review also recommends that MAS works with debt advice providers to broker a common front-end triage system to help individuals receive advice through the channel most suited to their needs, thereby improving outcomes for consumers and the efficiency of advice provision.

**2.6** A further key recommendation is for the establishment of a Debt Advice Steering Group, which will include representation from those funding debt advice, and those providing it, to help reach agreement on a range of new initiatives to support the sector. The government believes this is an important measure that will facilitate implementation of the full package of debt advice recommendations, and more broadly help improve the effectiveness and efficiency of free debt advice provision.

**2.7** The government is pleased that MAS accepts these recommendations and is already taking steps to implement them, including in the formation of the Debt Advice Steering Group. MAS

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<sup>1</sup> *Helping consumers to manage their money*, National Audit Office, December 2013.

will shortly publish the terms of reference and membership for this group, with the first meeting to be held in the first quarter of 2015-16.

## Recommendation for the government

**2.8** The Review recommends that the government reviews the legal framework for debt administration, ‘in order to provide consumers who agree to specified debt repayment schemes with a “breathing space” by freezing interest and charges, and to ensure a fair and appropriate basis for debt repayments to different classes of creditor.’

**2.9** The government shares the view that it is essential to ensure the right options and incentives are available to consumers to help them deal with their debts, and is happy to accept this recommendation.

**2.10** It will be important to consider in detail the impacts of additional statutory consumer protections, including balancing the rights of creditors and ensuring that any changes fit well with the formal and informal debt solutions currently available to consumers. **As such, HM Treasury and the Insolvency Service will undertake an in-depth review, in close consultation with the FCA, MAS and other stakeholders, which will complete by the end of the year.** The government will shortly publish details on the objectives of the review along with the Terms of Reference.

## Funding arrangements for debt advice

**2.11** It is important to ensure that the demand for free debt advice is met, particularly since the government reformed the regulation of consumer credit, which now sits with the FCA. MAS-coordinated debt advice is currently funded by a levy on FCA-authorized financial services firms. From 2015-16, this funding base will expand as for the first time it will include firms authorised by the FCA for consumer credit activities.

**2.12** To this end, the government also welcomes the commitments secured from the energy and water industries to bolster MAS-coordinated debt advice funding. The government welcomes the initial £1m down-payment from each of the sectors, and supports the recommendation that industry representatives should join the newly established Debt Advice Steering Group for 2015-16, along with other key funders of debt advice.

**2.13** The government believes it is important that the utilities industries contribute to the funding of MAS-coordinated debt advice in a way that is reflective of their relative significance to consumers’ indebtedness. Indeed, research carried out by MAS in 2014 found that utilities debts were cited as a concern by 40% of clients, up from 24% the previous year<sup>2</sup>. The Review marks the first step in the utilities industries’ support for increasing the provision of MAS-coordinated debt advice. The government looks forward to continued and increasing contributions from utilities in the years to come, and Ministers have written to the industries to this effect.

## Money advice

**2.14** It is important that people have the support they need to manage their money well. Ensuring individuals have access to – and are encouraged to use – high quality information, advice and other materials from sources that they can trust to meet their needs will help to build resilience and independence, and reduce the likelihood they will fall into problem debt.

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<sup>2</sup> The Money Advice Service Debt Advice Review 2013-14.

**2.15** The Review raises important questions about how MAS approaches this challenge and interprets its statutory remit, including in relation to the strategic role it should seek to play. MAS must ensure it is firmly focused on identifying and filling gaps in provision, so that it does not waste resources duplicating content or services available elsewhere, or crowd out other sources. As the Review notes, much has changed since MAS was set up. In particular, there is now a much wider selection of information and advice sources, particularly online, and many people now use the internet and smartphones to access the services they need.

## **Recommendations for MAS and the FCA**

**2.16** The Review has made a number of recommendations on how MAS can most effectively and efficiently fulfil its remit on money advice. Its key challenges to MAS include:

- filling gaps effectively where there is an identified need (the Review recommends a financial helpline be established, for example); and scaling back direct delivery where there are doubts over its impact, or where there is duplication
- developing its range of approaches so that, where there are gaps to fill, it has alternatives to filling these itself (e.g. grant funding other organisations to do so)
- refocusing its work towards raising the standards of other sources of financial information and advice, so gaps can be filled by others where possible
- doing more to position itself as a strategic coordinator of other sector organisations or firms, to leverage the reach, resource and expertise of others
- positioning itself as a hub of expertise for insight and knowledge of consumer behaviour that others can draw from
- doing more to coordinate initiatives in schools sponsored by the financial services sector.

**2.17** The Review recommends that the FCA should make rules to require that financial services firms signpost customers to the MAS website and the helpline. It also proposes a number of ways in which MAS and the FCA can better align their respective areas of work.

**2.18** The government considers that many of the Review's recommendations on its money advice role are profound in questioning the existing orthodoxy and challenging the status quo. The government welcomes the immediate measures MAS is taking to answer some of these questions posed by the Review, for example committing to establish an online evidence hub in the near future, and to conduct a financial health check on the nation.

**2.19** The Review notes that many of its more transformative recommendations for MAS may require further work, over a longer timeframe. The government believes it is vital to ensure there is a thorough evidence base, and a clear understanding of the implications of these different measures.

**2.20** To address these crucial questions raised by the Review, the government welcomes the commitment made by MAS to:

- explore the detail of the Review's evidence base, as well as the practicalities of implementing the Review's recommendations and moving in the proposed direction of travel
- thoroughly reappraise where there are (existing or new) gaps that need to be filled and where it can and should move away from direct delivery (including

withdrawing where there are no longer gaps, or using alternative and innovative methods to ensure need is met)

- convene a challenge panel, which will include – at a minimum – experts and practitioners from industry, consumer groups, the voluntary sector and academia, to scrutinise its work addressing the Review’s questions (MAS will publish terms of reference and membership information)

**2.21** MAS has committed to report to the Treasury with its findings and proposals for reform in the autumn, which will be placed in the public domain.

**2.22** The government is clear that MAS’s exploratory work and proposed reforms should be guided by the principle of delivering what works for consumers: they must be able – and encouraged – to access the information, support and tools they need through the appropriate channel(s), from sources they trust and where the quality of these resources is assured. **This raises a number of important issues that MAS (and where appropriate the FCA) has committed to explore further.**

**2.23** First, the need for MAS interventions to ensure provision of **impartial** information and advice is likely to vary across different markets, depending on the availability of alternative high quality and trustworthy (in the eyes of consumers) sources. This should be a key consideration in MAS’s gap analysis. For example, when the government consulted on the appropriate delivery arrangements for ensuring that all individuals with defined contribution pension pots would be able to access free and impartial guidance on their new retirement choices from April,<sup>3</sup> the overwhelming majority of respondents expressed the clear view that only independent organisations without any actual – or potential – conflict of interest should be able to deliver guidance. The government subsequently announced its decision to appoint the Pensions Advisory Service (TPAS) and the three Citizens Advice bodies in the UK as the delivery partners for the telephone and face to face channels respectively. MAS is supporting key aspects of the new pensions guidance service – Pension Wise – with its new impartial Financial Advisor Directory, and revised and improved annuity comparison table.<sup>4</sup>

**2.24** Second, the government notes the potential practical and legal concerns raised by MAS, and the FCA, concerning the Review’s recommendations for MAS to play a greater role influencing other providers of information and advice (e.g. the MAS Quality Mark, MAS working with industry to simplify information about products and help make product features more comparable). However, **the government welcomes the commitment by MAS and the FCA to identify how they can most effectively work together to exploit the synergies between their respective remits and areas of expertise** (including consideration of the recommendation that the FCA should require regulated firms to signpost customers to MAS). There is clearly merit in MAS’s consumer insight being embedded across as wide a range of the FCA’s work promoting well-functioning and competitive retail markets as possible.

**2.25** Third, **MAS will seek to further improve its engagement with other key stakeholders (both commercial and non-commercial)**, building on its Financial Capability Strategy work to date, to coordinate and influence the financial information and advice sector, and disseminate and promote innovation and good practice.

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<sup>3</sup> See *Freedom and choice in pensions*, published March 2014; the government’s response was published in July 2014, [www.gov.uk/government/consultations/freedom-and-choice-in-pensions](http://www.gov.uk/government/consultations/freedom-and-choice-in-pensions).

<sup>4</sup> See the government’s service design update on 18 October 2014 ([www.gov.uk/government/news/pensions-guidance-providers-unveiled](http://www.gov.uk/government/news/pensions-guidance-providers-unveiled)) and 12 January 2015 ([www.gov.uk/government/publications/delivering-pensions-guidance-january-2015-update/delivering-pensions-guidance-january-2015-update](http://www.gov.uk/government/publications/delivering-pensions-guidance-january-2015-update/delivering-pensions-guidance-january-2015-update)).

**2.26** Fourth, MAS will explore how it can better align its debt advice and money advice functions.<sup>5</sup> Ensuring consumers who are in danger of falling into problem debt are encouraged to get the help they need at an early stage to stop debt problems turning into problem debt will be key to effective prevention. This will be key to successfully implementing the Review's recommendation that MAS works with creditors to identify and refer consumers struggling with problem debt into advice at an early stage.

**2.27** Fifth, ensuring children get a good grounding in financial education is of crucial importance in helping them to become financially independent and resilient into adulthood. This is why the government took the important step of including financial education in the national curriculum for secondary schools from 2014. The government agrees with the Review's assessment that there is benefit in ensuring that other resource and initiatives, including those funded and/or led by the financial services sector, are coordinated and leveraged. **It therefore welcomes MAS's commitment to develop a plan over the coming months to take forward the Review's recommendation that it should play a stronger strategic coordination and support role in embedding financial education in schools.** It should work closely with stakeholders in the financial services sector to assess where it can add most value and build on existing initiatives, and with the Department for Education by signposting schools towards high quality materials.

## **Governance, accountability and coordination with the FCA family**

**2.28** The Review concludes that, to ensure MAS is positioned to meet consumer needs effectively and efficiently, there is a need to look not just at what the organisation does, but how it is structured and governed, how it interacts with other key organisations (including the FCA), and how it is held to account for delivering against its objectives. It makes a number of recommendations for MAS, the FCA and the government.

### **Recommendations for MAS and the FCA**

**2.29** The Review recommends that steps be taken to strengthen the ties between MAS, the FCA and its wider regulatory family. The government welcomes the commitment by both organisations to quickly identify ways they can work more closely together at all levels. In particular, it is important to ensure MAS's insight on consumer behaviour and the effectiveness of different types of intervention is brought to the attention of the FCA regulatory family, and more broadly to ensure they work together towards the common goal of ensuring that the financial information and advice markets work better for consumers.

**2.30** Truly strengthening ties at all levels will require careful and considered thought over the months ahead. However, the government welcomes the initial steps set out by MAS and the FCA:

- the FCA has invited MAS to join its quarterly Coordination Committee with the Financial Ombudsman Service (FOS) and the Financial Services Compensation Scheme (FSCS). This will ensure MAS is incorporated into the FCA's work to identify and consider emerging risks that have the potential to cause detriment amongst consumers
- MAS will look to further enhance its relationship with the Financial Services Consumer Panel (FSCP) – they have agreed to hold regular quarterly meetings, and MAS will invite the FSCP onto its Customer Research and Evaluation Group (along with the FOS)

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<sup>5</sup> Debt avoidance is part of the money advice function.

**2.31** In respect of the Review’s recommendation that the MAS Board be strengthened at the earliest opportunity, the government notes that MAS is currently recruiting for two new members, and welcomes its commitment to seek out candidates who have the right skillset envisaged by the Review.

## **Recommendations for the government**

**2.32** The Review recommends that the FCA and the government should consider what short term measures they can take to strengthen the accountability of MAS.

**2.33** MAS is an independent organisation, ultimately accountable to the Treasury but with the FCA (itself an independent organisation) holding statutory oversight responsibility for approving MAS’s budget and business plan, and for appointment or removal of its Board.<sup>6</sup> There are therefore clear limitations on government involvement.

**2.34** However, there are steps that can quickly be taken to improve communications between the government and MAS on strategic approaches, and to ensure Ministers are more regularly updated on MAS’s progress against delivery of its statutory objectives. **The Treasury and MAS will therefore put their existing engagement arrangements on a more formal and regular footing, and establish a programme of meetings:**

- the Treasury Director of Financial Services will meet with the MAS Chief Executive at least quarterly
- the Economic Secretary to the Treasury will meet with the MAS Chair and Chief Executive at least biannually

**2.35** MAS will also, twice a year, provide a progress update to Treasury Ministers on how it is delivering against its statutory objectives and the challenges ahead.

**2.36** The government and the FCA will work together to explore what opportunities there may be to further strengthen accountability arrangements and improve communications on strategic approaches, within the current organisational and statutory framework.

## **Next steps**

**2.37** Both MAS and the FCA have committed to take forward their consideration and analysis over the coming months, and submit their conclusions and proposed action plans to the Treasury in the autumn. The government welcomes this commitment to address the remaining questions posed by the Review, and expects to see plans that will serve to drive improvement and advance the following objectives:

- where there are gaps, ensuring consumers have access to financial information and advice that meets their needs and that they will trust
- delivering a clearly focused organisation that has effectiveness, efficiency, versatility, collaboration, innovation and responsiveness to consumer needs firmly at the heart of its design and delivery strategy

**2.38** To this end, the government welcomes the commitment by MAS to assess what kind of business it will need to meet these objectives – in terms of size, budget, skillset and delivery mechanisms – and, as part of its action plan, set out transition arrangements for moving towards that type of business.

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<sup>6</sup> Appointment or removal of the MAS Chair or Chief Executive is subject to Treasury approval, while the Treasury must also be consulted on the annual budget and business plan.

**2.39** The government will remain closely engaged with MAS and the FCA as their work progresses. Combined with the plans set out above to implement the Review's debt advice recommendations, the government expects this work to lead to tangible improvement in the way MAS delivers against its remit. The work carried out by both organisations will also inform analysis the government will be carrying out in parallel, to assess what statutory changes would be necessary or useful in the next parliament to most effectively advance the objectives set out above in the longer term.

**2.40** The government is clear that any changes to MAS's statutory remit will need to be taken in the context both of future plans for Pension Wise in the next parliament and of wider developments or interventions in the landscape for impartial financial information and advice. This will enable it to pursue a holistic approach in assessing, and meeting, consumer needs for these services.

**2.41** The government will publish the conclusions of its analysis, along with any plans for statutory (as well as non-statutory) change to MAS, by the end of the year.





### **HM Treasury contacts**

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