Public Financial Guidance

RESPONSE FROM ICAS TO HM TREASURY

18 December 2015
Introduction

The ICAS Pensions Committee and ICAS Insolvency Committee welcome the opportunity to respond to HM Treasury’s consultation on public financial guidance (October 2015).

Our CA qualification is internationally recognised and respected. We are a professional body for over 20,000 members who work in the UK and in more than 100 countries around the world. Our members represent different sizes of accountancy practice, financial services, industry, the investment community and the public and charity sectors.

Our Charter requires ICAS committees to act primarily in the public interest and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members’ views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

Key points

We believe the concurrent reviews of public financial guidance and the provision of independent financial advice are timely. We acknowledge that the reviews are broad in scope; however, with the pensions freedoms recently implemented, these reviews are particularly welcome.

The focus of our response is on the provision of the pension guidance guarantee but we do comment more widely on the provision of public financial guidance, including debt guidance. In particular, we believe that:

- there is a need to restructure financial guidance services under a single brand which sign-posts consumers to the specialist support they require and to relevant third parties, where appropriate. With regard to pension guidance, this will be accessed far more frequently than independent financial advice and therefore must be of a consistently high standard.
- in order to meet future demand which will be driven not only by the freedom and choice reforms but also by auto-enrolment, we believe that ‘robo’ guidance will need to become an important means of delivering pension guidance.
- at present the pension guidance guarantee is limited to people aged 55 and over with defined contribution (DC) pension pots. We believe that this needs to be extended to cover defined benefit (DB) pots and possibly to take into account other aspects of a person’s financial circumstances. The guarantee should also be extended to provide guidance to those that wish it at the beginning of their working life and for those at the mid-career stage. The recent announcement about the launch of a second hand annuity market in April 2017 may mean that pension guidance services need to be further extended to take this into account.
- The freedom and choice reforms mean that the tax implications of withdrawing pension savings need to be understood by many more people. This is an area where we believe the government should ensure that consumers have access to information or advice, as appropriate, on the tax implications of decisions about pensions.
- In order to address, the ‘advice gap’, consideration should be given to extending the definition of guidance to a point where it merely falls short of recommending a particular pension decumulation product.

Now that major reforms to our pensions system have been implemented, we believe it is the appropriate time for the government to consider setting up an independent pensions/retirement savings commission as a standing advisory body which seeks to achieve long-term stability for the UK pensions system and cross-party consensus. Long-term stability in pensions’ policy is relevant to the provision of guidance and independent financial advice as it would help to build consumer confidence in these services.

Our responses to the consultation questions are set out below.

Any enquiries should be addressed to Christine Scott, Assistant Director, Charities and Pensions, at cscott@icas.com.
Responses to consultation questions

Chapter 1: Introduction

Question 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 or obtaining guidance.

Response
We believe that consumers seeking financial guidance will include many who could be in vulnerable circumstances. Our responses to the questions arising from chapter 3 (pensions), chapter 5 (what does the government need to provide?) and chapter 6 (how should it be provided?) cover our views on the need for a holistic approach to financial guidance services. The present structure has evolved, and while there are mechanisms to sign-post consumers to the appropriate guidance provider, services have the appearance of being piecemeal. All consumers, particularly those in vulnerable circumstances, would benefit from being able to make initial contact with a single ‘branded’ provider even if services can be accessed and delivered by different means.

We believe that the word ‘pensions’ would need to feature in the title of any newly branded provider that had the delivery of the pension guidance guarantee as part of its remit.

Chapter 2: Debt

Question 2
What additional or alternative functions and structures could a statutory body put in place to effectively coordinate debt advice provision?

Response
While recognising that the purpose of the consultation is to consider the public provision of free-to-client, impartial financial guidance (“public financial guidance”), the consultation does not appear to recognise the substantial public financial guidance provided by commercial organisations and in particular insolvency practitioners who will provide initial debt advice to consumers free of charge.

We are concerned that the current provisions of the Financial Services and Markets Act 2000 (as amended) and in particular the exclusion under article 72H and definition of ‘insolvency practitioner’ is drafted in such a way that insolvency practitioners are being unduly restricted from providing debt advice to consumers despite being highly qualified and subject to rigorous regulation.

Insolvency Practitioners are required to demonstrate significant experience and undertake strenuous examinations before qualification, are already highly regulated and are required to undertake continuous professional development should be able to provide consumer debt advice without dual regulation from the FCA.

The regulation of debt advice is a crowded space. Much more needs to be done to co-ordinate the regulation and remove duplication of regulation from those providing debt advice. The statutory body should therefore take a strategic role in the co-ordination of regulators and ensuring that quality provision of debt advice can be delivered by a number of providers but without duplication of regulation.

Question 3
What role should a statutory advice body have in providing quality assurance and setting standards for debt advice?

Response
The regulation of debt advice is a crowded and overly complex. Those providing debt advice are impacted by FCA, Designated Professional Bodies under Part XX FSMA 2000, Money Advice Service, Insolvency Service, and Accountant in Bankruptcy amongst others.
We agree that debt advice should be high quality. Insolvency practitioners who provide debt advice are already highly regulated with robust systems of quality assurance. A statutory advice body should therefore further develop qualification standards and effective system of monitoring for other money advisors. This should be backed up with clear ethical standards and codes of conduct.

Chapter 3: Pensions

Question 5
What additional or alternative functions and structures could a statutory body put in place to effectively co-ordinate public financial guidance on pensions?

Response
We are still in the early days of the freedom and choice reforms and pensions auto-enrolment. As time passes more people with larger pots will be seeking guidance on the range of options available to them. We don’t believe that there will be sufficient capacity within the current Pensions Wise arrangements in the medium and long-term to deal with demand for pensions guidance.

In order to meet this demand, we believe it will be necessary to develop and offer ‘robo’ guidance to consumers. This approach would increase capacity and ensure consistency as the guidance would be delivered within set parameters.

At present, guidance is only available to people aged 55 and over with a DC pension pot. We believe that access to guidance about pensions should be available at a number of key points in a person’s life, for example, when starting work, on reaching mid-career as well as at retirement: the guidance would therefore fall in both the accumulation and decumulation stages.

The guidance would need to be appropriate to each key point in a person’s life as there would inevitably be other financial matters, such as student debt and purchasing a home, which would need to be considered in addition to retirement saving.

We also believe that further consideration needs to be given as to how the guidance service deals with inquiries from people with DB pensions. While independent financial advice must be obtained before withdrawing a DB pot valued at more than £30,000, people may have a combination of numerous DB and DC pots, other long-term savings and possibly debt; therefore, it is important that the guidance is not given without reference to the wider circumstances of the consumer. We recommend that the scope of the pension guidance guarantee is extended to include DB pensions.

In our response to the Financial Advice and Markets Review (FAMR) we comment on the ‘advice gap’ and make suggestions about how this could be addressed. One of our suggestions is to reduce the demand for advice by expanding the definition of guidance, and therefore the scope of public financial guidance, to a point which just falls short of recommending a particular decumulation product. This would involve publicly supported guidance setting out the options available to the consumer in more detail along with the pros and cons of each option. We include further commentary on this in our response to FAMR.

Question 6
How could the organisational delivery of public financial guidance on pensions be improved to provide greater efficiency?

Response
In terms of organisational efficiency, we believe that there should be a single recognisable branded money, debt and pension guidance service, which sign-posts consumers appropriately. Inevitably this will involve consideration of how guidance services are organised behind the scenes and we agree that some rationalisation is needed. However, our main concern is ensuring that from the perspective of consumers there is a ‘one-stop’ shop.

As referred to in our response to question 1, we believe that the word ‘pension’ would need to be included in the name of any new branded guidance service. The ability to sign-post appropriately to third parties, i.e. providers of advice, would be an important aspect of such a service. As well as sign-posting to independent financial advice, we recommend that consideration is given to ensuring that where advice is needed on the tax aspects of any decision about pensions that this too is sign-posted: provider risk warnings notwithstanding. The freedom and choice reforms have significant tax implications for individuals and it is not currently clear the extent to which these are understood by
individuals and how individuals, seeking financial guidance currently, or may in future, access personalised advice on pensions taxation.

In exercising the new pensions freedoms, individuals need to understand the risk that they may run out of money. In March 2015, the DWP issued guidance to the public on pensions flexibilities and DWP benefits. The guidance includes the following deprivation rule:

“If you spend, transfer or give away any money that you take from your pension pot, DWP will consider whether you have deliberately deprived yourself of that money in order to secure (or increase) your entitlement to benefits. If it is decided that you have deliberately deprived yourself, you will be treated as still having that money and it will be taken into account as income or capital when your benefit entitlement is worked out.”

The deprivation rule is another aspect of the changing financial landscape in relation to pensions. We suspect that this rule is not well known and we believe, if this is not currently the case, that awareness of the rule should be incorporated into the government’s pension guidance service.

We believe that there is still work to do to ensure that people understand the difference between guidance and independent financial advice. This would be assisted by not having the word ‘advice’ in the name of any new brand for financial guidance. The title ‘Money Advice Service’ does not do anything to assist public understanding of the difference between a ‘guidance’ offering and an ‘advice’ offering.

**Question 7**
What scope is there to rationalise the funding of public financial guidance provision on pensions?

**Response**
We believe that the levy would need to be rationalised to reflect any restructuring of the providers of financial guidance. However, we envisage that there would be a continued need for a levy on providers who benefit from the purchase of pension products. It would be a matter of policy as to whether funds raised by the levy are distributed directly to the new guidance provider(s) or distributed through grants or through grant-in-aid.

Our main concern is the level of the funding that will be required for guidance services as demand grows. We therefore recognise that the government may wish to consider other sources of funding.

It is possible that employers may play a role here in paying for guidance or possibly for independent financial advice for their employees. However, employer funded guidance and advice may be more likely to complement and supplement government supported provision rather than replace it.

**Chapter 5: what does the government need to provide?**

**Question 12**
How do you think that the government could best complement the voluntary sector provision of financial guidance?

**Response**
While the voluntary sector is free to offer guidance services to the public of its own devising, we believe that there should be a government funded offer provided under a single ‘brand’, whether that be delivered by a public body or third party provider (with the proviso that the provider is independent of the industry).

The quality of guidance is central to the success of a public financial guidance service particularly as most consumers will access guidance rather than take independent financial advice, which is viewed as too expensive.

The quality of guidance available within the existing structure is patchy and ensuring consistently high standards should be a priority for any re-designed service.

**Question 13**
Do you think that the government could offer a more integrated public financial guidance service to consumers, throughout their lives? How do you think this could be achieved?
Response
We believe there should be a more integrated public financial guidance service, where specialists in different areas can be accessed via a single recognisable branded money, debt and pensions guidance service, which sign-posts consumers appropriately. Our comments on this topic are included in our response to questions 1, 5 and 6.

We recommend that guidance on pensions can be accessed at three key points in a person’s life: we recognise that there would need to be a system devised to determine who is entitled to pensions guidance, when they are entitled to it and when it has been delivered.

Question 14
Do you think the government should explore any alternative options for the provision of public financial guidance?

Response
We set out our views on the provision of public financial guidance in our response to questions 1, 5 and 6.

Chapter 6. How should it be provided?

Question 15
Are the suggested core services the right ones? Should any core services be added?

Response
We agree that the core services referred to in chapter 6, of the consultation document, on free-to-client appointments to meet the pension guidance guarantee and the co-ordinated delivery of free-to-client debt advice appointments should continue.

Services will need to be delivered in a variety of ways to suit the consumer including face-to-face appointments, telephone appointments and access to literature (whether on-line or on paper). We also believe that technology will need to be used to deliver ‘robo’ guidance in order to meet demand which is likely to grow as a consequence of pension reform.

Question 16
Are the suggested principles the right ones to underpin the statutory provision of the core services? Should any principles be added or removed?

Response
We support the principles set out in paragraph 6.5 but would like to add ‘impartial’ to this list.

Question 17
Do you think that statutory provision should be restructured to improve the guidance service to consumers, and, if so, how?

Response
Yes, we agree that statutory provision should be restructured. We provide further commentary on this topic in our response to questions 1, 5 and 6.

A restructured service should be supported by systems and processes to measure its quality and effectiveness.