Consultation Response

Review of the Money Advice Service

Response to call for evidence

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We are an independent charity dedicated to overcoming problem debt. Our advice and solutions are effective, tailored and importantly, free. Foundation for Credit Counselling. 123 Albion Street, Leeds, LS2 8ER. Company No 2757055. Charity No 1016630. www.stepchange.org

Introduction

StepChange Debt Charity is the UK's largest specialist independent debt advice service and the country's only major charitable provider of free-to-client debt management plans (DMPs), a key non-statutory debt solution. We currently support clients dealing with £4 billion of unsecured debt. Since 2008 we have supported our clients in the repayment of nearly £1.8 billion of debts. In 2013 over 500,000 people contacted our free helpline or online debt remedy tool for advice, support and solutions to help resolve serious debt problems and we expect this number to grow to 600,000 in 2014.

We welcome this independent review of the Money Advice Service (MAS) whose role includes helping financially stretched households access debt advice and solutions. The review is timely not only because MAS has been dogged by criticism and consequent uncertainty since it was set up in 2010, but also because of the substantial changes in the regulatory regime for credit and debt which took place in April 2014. Regulation of the debt advice sector is now the role of the FCA making it an opportune time to clarify the role and responsibilities of MAS in this area. In particular, as per our response to Q11, we are recommending a revised statutory remit for MAS that removes the possibility of duplication and confusion over regulation of standards in the sector.

Our expertise is derived from providing advice and solutions to over-indebted people for over 20 years. Therefore our response is mainly concerned with considering what role MAS has in ensuring adequate provision of free debt advice and solutions for all those who need them, and how this can be funded in a cost-effective and sustainable way. Our view is that having a statutory body committed to improving consumers' financial understanding, capability and resilience can make an important contribution to our own aim of creating a society free from problem debt.

MAS has identified that only a fraction of the nearly 9 million people behind on bills or consumer debts are seeking the help they need[1]. As such, we believe MAS's key role is to raise awareness of not-for-profit debt advice and to support its availability. In its role of raising awareness of free debt advice MAS needs to, insofar as possible, avoid imposing extra steps between consumers and the free debt advice organisations providing the help that consumers need. Introducing extra layers to the customer journey makes it more likely people will "drop out" or disengage from the process – which can lead to people not getting the help they need.

[1] Indebted lives: the complexities of life in debt (2013), Money Advice Service

Our response likewise recommends a stronger focus on getting people the solutions they need to resolve their debts, either by repayment or relief, and so re-boot their finances and move on with their lives.

Our response calls for MAS to have a central objective of extending the reach of free, not-for-profit debt advice providers. We recommend this should be achieved through both more funding for the sector and a revised statutory remit. The latter should contain a more open procurement strategy and a clearer focus on the numbers of people who resolve their debt problems.

First, given the need for free debt advice over and above current provision, we believe there is a strong case for the MAS debt advice levy to support more investment in the not-for-profit sector. MAS should start to make more of a dent in demand by seeking new monies from the debt advice levy collected by the FCA, which with the addition of the newly regulated consumer credit firms offers a much broader funding base. It would surely be a missed opportunity if the new monies available under the new regime were not used to support a significant and sustainable uplift in funding for free debt advice and solutions.

Second, to be most effective we believe new funds should be allocated in a new way. Extending sector reach is most efficiently achieved by improving the cost-effectiveness of the supply-side. We believe MAS's statutory remit should therefore be changed to ensure all interested non-profit providers can make applications for funding. More funds and a new procurement mandate – together, MAS could use these two measures to pump-prime a debt advice 'Challenge Fund', sparking innovative new projects and partnership arrangements and improving the effectiveness of the sector in meeting client need. This should be accompanied by a new commitment from MAS to ensure that face-to-face debt advice is, as per its own research, sufficiently provided for. In the short run, we recognise that MAS has allocated significant funding to particular organisations and projects: it would be disruptive to unpick these arrangements. So initially we propose that only new monies are allocated to this new Fund. When the current funding deals expire, however, there will be the opportunity to look again at how all levy funding is allocated.

With a General Election less than 9 months away, it seems unlikely that there will be sufficient Parliamentary time to introduce immediate statutory changes. However, in the interim MAS's role and responsibilities in relation to the FCA can be clarified effectively through adjusting the memorandum of understanding between them – a memorandum which became outdated with the introduction of the new FCA debt advice regime. For areas where changes cannot be made through adjusting the MOU, we would point out that legislation allows the Treasury to make directions to the MAS Board.

Response to questions

1. In what areas do consumers' awareness and understanding of financial matters most need to be enhanced? Where is detriment most prevalent and most material?

In the area of debt advice and solutions, the overwhelming need is to get more people to seek the best free advice in a timely manner, and to resolve their problems with the debt solutions that best suit their circumstances. Our evidence shows that half of our clients have delayed taking action by a year before seeking help. During this time, problems typically mount and become more intractable[2]. This is a material detriment to millions of consumers that needs to be met by a concerted response from policy makers and providers.

Equally, hundreds of thousands of financially vulnerable people are turning to fee charging debt advisers every year[3]. While fee chargers can provide an acceptable service, we would always argue that it is in the best interest of clients to get a good quality service free of charge. The FCA has identified clear problems in the commercial sector, including profit-driven advice and high/non-transparent fees[4]. It says hundreds of thousands of distressed borrowers are paying annual fees of between £390 and £620[5] for a debt repayment solution – a DMP – available for free from non-profit organisations like StepChange Debt Charity. This at best slows down the repayment process and at worst can exacerbate an already precarious situation.

The fact so many people in need either delay seeking advice or pay for services that they could get for free is the primary area in debt advice where we believe consumer awareness and understanding needs to be enhanced. We hope the new FCA regime will help reform the commercial sector, and there are early signs of a shake-out even before many firms reach full authorisation, but awareness-raising and directional guidance for consumers should complement the regulatory response.

2. What evidence is there for how consumer capabilities have changed – and what has led to this change?

MAS says that despite worldwide activity aimed at increasing financial capability, there is no single underpinning theory about what makes individuals financially capable. To remedy gaps in the evidence in the UK, MAS established a financial capability tracker in 2013. However, this has yet to yield significant insights into trends over time.

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[2] Statistical Yearbook: Personal Debt 2013, StepChange Debt Charity, p13. Available at http://www.stepchange.org/Portals/0/documents/media/PersonalStatsYearbook2013.pdf
[3] Fee Charging Debt Management Market Assessment (2012), Grant Thornton/DEMSA
[4] Payday Loans, Logbook Loans and Debt Management Services (2014), FCA/ESRO. Chapter 6 esp. pp38-44. A summary of the FCA's research on the debt management sector is available at: http://www.fca.org.uk/firms/firm-types/consumer-credit/consumer-credit-research/debt-management
[5] FCA reported at http://www.bbc.co.uk/news/business-26692111

We would therefore limit our comments to observations based on the experience of our clients and the key findings of the FSA's original baseline survey of financial capability in 2006[6]. This suggested strengths and weaknesses across both low and high-income groups: capability does not always correlate with income. Often people with less disposable income are '[financially] capable given their circumstances' – an observation that rings true for the many people living on incredibly tight household budgets in order to pay down debts.

3. What evidence is there for how the need for debt advice has changed – and what has led to this change?

The economic legacy of the last decade has been one of falling real incomes, rising essential living costs and a persistent problem with low savings rates. The prospects for the coming years are mixed. On the positive side we are now seeing economic growth; however more flexible labour markets and an increasingly competitive international market may keep wages low, especially for people on lower incomes. Many essential costs, e.g. energy, may increase due to need for significant investment in infrastructure, the burden of which is increasingly likely to fall on consumers (rather than taxpayers). At the same time, it is unclear what impact recent pension reforms will have (auto-enrolment; changes to how pension savings can be accessed). Meanwhile, households have to deal with the fallout from the largest squeeze on earnings for a generation. Already, the proportion of household income spent on essential goods and services has increased, up from 20 percent to 27 percent over the last decade[7]. Squeezed from all sides, millions of families lacking financial resilience have turned to credit to keep up with essential household bills.

Our 2014 report Life on the Edge shows how for many people this has translated into chronic financial insecurity. 15 million people are behind on bills and using credit to pay for essential living costs. Another 13 million people know that a drop in income of just a quarter would push them into debt within a month[8]. Our report sets out how specific problems with the UK labour and housing markets contribute to debt problems – and how welfare safety nets are not always providing adequate protection from income shocks. Changes in circumstances such as job loss, relationship breakdown or ill health, have for many years been among the most common triggers of unmanageable debt among our clients[9]. But now more than ever, the squeeze on household budgets is the starting point from which debt problems take off.

By contrast, in the run up to the financial crisis, it was an unprecedented relaxation of lending rules that enabled households to build up bigger debts than ever before. The

[6] Financial capability in the UK: establishing a baseline (2006), FSA
[7] ONS Economic Review for November
[8] Life on the Edge (2014), StepChange Debt Charity
[9] Statistical Yearbook: Personal Debt 2013, StepChange Debt Charity, p38

average consumer credit debts of StepChange Debt Charity clients peaked at around £24,000 in 2009. Since then average consumer debts among our clients have fallen – they now sit at around £16,000, a third lower[10]. While this might at first seem a cause for optimism – with lower availability of loans protecting consumers from stratospheric levels of problem debt – we believe the underlying factors around over-indebtedness have never been more difficult to resolve.

Among our clients, debt problems are now increasingly concentrated on areas of priority expenditure, indicating how much harder they are to deal with. Between 2009 and 2013, the proportion of clients reporting Council Tax arrears increased from 10 percent to over 25 percent. Over the same period, the proportion of clients with arrears on utility bills, gas and electricity doubled[11]. The rise of short-term payday lending and other high cost forms of borrowing have contributed to more acute forms of debt problems among people seeking help[12]. While during the credit boom, advice and better budgeting could solve a lot of people's problems, now a lack of sufficient income to live on is driving a lot more of the increased demand for debt help.

4. What potential is there for the gap in consumer capabilities to be addressed through industry doing more – for example, by reducing complexity and helping make its products more understandable? How does this compare to the potential for reducing the gap in consumer capabilities through education and advice?

We do not believe there is a straightforward trade-off between product simplicity/complexity and people's need for help and advice with managing their money. Even if all products were radically simplified, people would still need guidance on non-product matters (e.g. budgeting) and advice they can trust when life circumstances means they would benefit from approaching a market they might instinctively prefer to avoid.

In recent memory, there have been many attempts to develop more simple products – activity around the Sergeant Review being the latest – but none have led to significant innovation or change. The evidence suggests that part of the reason is because Governments have been unwilling to legislate strongly enough to compel provision; and regulators have been unwilling to treat 'simple products' any differently from products already on the market. In this environment, simple products – which tend to deliver lower margins and restrict brand differentiation – have never appeared attractive to firms – and thus require much stronger intervention to achieve their objectives.

That said, we believe the FCA's new product intervention powers are a significant step forward. Together with the regulator's conduct and contract terms powers, they

[10] Statistical Yearbook: Personal Debt 2013, StepChange Debt Charity, p15
[11] ibid, p2
[12] The average amount our clients owe on payday loans is £1,657, showing the severity of financial difficulties – people now owe more on payday loans than a whole month's income. Ibid.

give the regulator the ability to remove the most toxic and unsuitable products and product features from the market. Sometimes it appears that firms are reluctant to innovate because of regulatory risk and a clear signal from the FCA that firms should move out of their comfort zone might help. For its part, we believe MAS can produce generic guidance and advice which can help to improve consumer capabilities but it should not have a role in product regulation.

5. How has the provision of consumer financial education developed over the past 5-10 years? What are the opportunities for the future?

- How important is the role of commercial and/or not for profit web-based, phone and face-to-face intermediaries now and how might this change in the future?
- What potential does digital technology and social media have to drive further behavioural change?
- What role does and should the financial services industry itself play in the delivery of financial education, guidance and advice?

6. How well does the market for debt advice work – and what opportunities are there to improve how it operates?

StepChange Debt Charity is the UK's largest specialist independent debt advice provider and is regularly engaged in dialogue about how to improve the way the sector operates.

Effectiveness of the debt advice sector: The debt advice sector has a proven track record, helping millions of people regain control of their financial situation. StepChange Debt Charity helped over 500,000 people last year, up from around 380,000 two years ago. Our services help people in a number of different ways, including through detailed household budgeting, access to statutory debt relief solutions and agreed sustainable repayment plans. As a result, contact by creditors eases and stresses around money are reduced. The space we provide helps people rebuild their finances and over time get on with their lives and play a fuller role in the economy.

Several reports show how effective the debt advice sector is. MAS has shown that a year after seeking debt advice, people with unmanageable debts are almost twice as likely to have recovered their situation to 'manageable'[13]. The majority (60 percent) say debt advice is the main reason; in contrast, just 20 percent attribute improved employment status[14]. Similarly, the Money Advice Trust (MAT) has shown that the "overwhelming majority" of clients consulting debt advice achieve a solution to their debt problems, with 92 percent saying that they either benefited from a formal solution, saw their debt repayment reduced to a manageable level or had been able

[13] The effectiveness of debt advice in the UK (2012), MAS/YouGov
[14] ibid

to stop their debt escalating. Controlling for variations in client profile, MAT says outcomes are largely the same across face-to-face, online and telephone channels[15].

Creditors also benefit from the work of the not-for-profit debt advice sector. Research published by the Friends Provident Foundation in 2011 estimated that creditors benefit by as much as £1 billion a year from improved recovery rates – the extra monies collected as a result of debt advice[16]. Similarly, reduced debt recovery costs are important. For example, the overall time spent understanding a customer's financial situation is significantly less as the work is undertaken only once – by the debt advice agency – rather than by each creditor independently.

It is well established then that debt advice charities provide a service of great value to both creditors and borrowers alike. Yet there are areas where we believe the sector can do more. We have three main concerns.

- First, only a small proportion of people struggling with debt seek help – fewer than one in five according to MAS[17]. This is a key market failure. We believe the top priority for the sector is therefore to extend its **reach**.

- Second, many people in financial distress are not seeking timely advice, with debt problems worsening as a result: half of clients[18] coming to StepChange Debt Charity delayed for a year or more before getting help. We believe there is a need for a **better promise of reward** so people know they will be treated fairly by creditors when they do the right thing, engage and get advice.

- Third, hundreds of thousands of financially vulnerable people are turning to the **commercial debt management sector** every year, where the FCA has identified clear problems including profit-driven advice and high/non-transparent fees[19]. We believe more investment in charitable debt advice offers good value for money for the regulator in fulfilling its statutory objectives, i.e. both to protect consumers and make the debt advice market "work well".

Reach: We believe MAS should have an explicit target to work with the sector to close the gap between the 8.8 million people who need debt advice and the 1.7 million who seek it. A significant part of this involves mobilising demand for debt advice and directing it to the most cost effective delivery channels. We believe a national consumer education campaign to raise awareness of debt issues among the general public is long overdue. More than five years on from the start of the financial crisis, MAS has a key role to play to encourage people to spot the signs of a debt

[15] Debt Advice Channel Strategy Research, volume one, (2012) Money Advice Trust/Policis.
[16] The impact of independent debt advice services on the UK credit industry, Wells, J, Leston J and Gostelow M (2011), Friends Provident Foundation
[17] Indebted lives, (2013), Money Advice Service
[18] Statistical Yearbook: Personal Debt 2013, StepChange Debt Charity
[19] FCA research on debt management, Op Cit.

problem and take appropriate and timely action – including promotion of free-to-client advice services[20]. This would complement work by creditors who already refer large numbers of people to free debt advice services.

Sector reach should also be extended by improving the cost-effectiveness of the supply-side. Data from the main non-profit providers shows that telephone advice is four or five times cheaper than face-to-face provision, with online services cheaper still[21]. The appetite for telephone and online services is there, with hundreds of thousands of people every year using the services provided by StepChange Debt Charity and others. Web-based debt advice is in particular a high growth area, with numbers advised by our online Debt Remedy tool up 115 percent in the last five years. Even among the cohort of face-to-face clients in the wider sector, there are high rates of appeal[22]. MAS needs to both respond to the evidence of consumer choice and also, to expand reach in a cost effective way, to support channel shift. MAS has started to explore how its funding can leverage more telephone and online capacity but we believe there is a lot more to be done. Clearly, face-to-face provision must remain sufficient to match client need – and in some areas where there is under-supply, it should increase. Over time however, we believe the onus should be on MAS to adopt more of a needs-based approach to commissioning, with more focus on delivering a service that reaches as many people as possible at as low a cost as possible.

Early action on debts: We welcome MAS's work with creditors on early intervention. More widespread preventative action could be a boon in helping customers stay out of financial difficulties. However, we believe there are more structural problems stopping people from getting support. Significantly, there is no watertight guarantee that debt advice in England, Wales and Northern Ireland will relieve pressure from creditors, which reduces our ability to get people to take action and confront their debt problems. By contrast, in Scotland there is a statutory system which protects people who enter into a debt repayment scheme (the Debt Arrangement Scheme) from further interest and charges. We are keen for MAS to work with us to bring forward the best elements of the Scottish model to the rest of the UK so that people who do the right thing, engage with their debts and get advice know they will get significant relief from all their creditors.

Support for the free sector: Both the FCA and before them, the OFT, have shown how advice outcomes in the commercial sector are often detrimental or poor value[23].

[20] A national campaign to improve debt awareness has been recommended by academics at Bristol University, as well as both the Centre for Social Justice and The Smith Institute.
[21] Helping over-indebted consumers (2010), NAO; Helping consumers to manage their money (2013), NAO.
[22] Research by the Money Advice Trust suggests seven in ten face-to-face clients would be comfortable with debt advice delivered by phone. MAT/Policis Op Cit.
[23] Potential issues in the market, (2014), FCA accessed 14 August 2014 http://www.fca.org.uk/firms/firm-types/consumer-credit/consumer-credit-research/debt-management/potential-issues-in-the-market; Debt management guidance compliance review – final report, (2010), OFT

Distressed borrowers are often paying annual fees of between £390 and £620[24] for a debt repayment solution – a DMP – available for free from non-profit organisations like StepChange Debt Charity. At best fees slow down the repayment process and at worst commercial firms exacerbate an already precarious situation. Extra funding for free debt advice would therefore represent good value both for the regulator (in pursuit of its statutory objectives) and for the consumer.

For its part, the free debt advice sector needs to work collaboratively to ensure that it reaches as many people as possible and to provide the help that people need at a low a cost as possible. StepChange Debt Charity is currently working with Citizens Advice, the Money Advice Trust and Christians Against Poverty to promote more collaboration.

Given the need for debt advice, we believe there is a strong case for more investment in the not-for-profit sector through the FCA levy, especially given the FCA now has a broader levy base. There is already scope for the FCA to pass on funds, including from newly regulated consumer credit firms, to support MAS in addressing demand. If MAS does not act, new money from the levy will be used solely to reduce the debt advice contribution of existing funders[25]. This would surely be a missed opportunity when only a fraction of the over-indebted population is currently getting free debt advice and support.

[24] FCA briefing, reported at http://www.bbc.co.uk/news/business-26692111
[25] FCA Regulated fees and levies: Rates proposals 2014/15 (CP 14/6), 7.12. Available at http://www.fca.org.uk/your-fca/documents/consultation-papers/cp14-6

7. Do you think that the strategy set by MAS for interpreting its legislative remit remains appropriate? What improvements could be made? For example:

- What priority consumer outcomes do you think MAS should focus on?
- Do you agree with MAS's assessment of its target market? If not, what should it be and should MAS be more or less targeted in the groups it focuses on and how it does so?
- How should the work of MAS fit with that of paid-for independent financial advice and the consumer advice and support services provided by organisations such as Citizens Advice?

Given the increasing evidence of the parlous state of many household finances (Q3) we support the MAS focus on helping people to become more financially resilient.

Growing the market: There is a pressing need to encourage people to seek debt advice in a timely fashion and MAS certainly has a role in growing the "market" for free debt advice. To this end, we believe MAS should be focused on a target that stretches the debt advice sector's reach. MAS has done a good job in building the visibility and reach of its own website since launch in 2011 and its main page, "Where to get free debt advice" is a powerful one. As a result MAS referrals have grown considerably in the last few years and, apart from web based search engines, MAS is now the second largest referral source to our website (of which a high proportion proceed to full debt advice).

Streamlining the customer journey: We do however have concerns about how the MAS brand interacts with other sources of free help, particularly the free debt advice sector. As we have said, in their role of providing general money advice MAS plays an important role in referring people in need to StepChange Debt Charity and other sources of free debt advice. Indeed we want them, and other agencies in contact with indebted consumers, to do more in this direction.

However, any "hand-off" carries with it the risk that consumers will disengage and become lost in the system – and all in the sector, including MAS, need to guard against this risk. This is particularly the case where the customer journey is convoluted. One example of this might be the journey to free debt advice services from mandatory links to MAS on payday lenders' websites – this involves at least seven or eight clicks and therefore inevitably involves a higher rate of "drop-off".

To minimise the risks of people dropping out of the debt advice system, MAS and the free debt advice sector need to work together to ensure that any referral mechanism is as "frictionless" as possible. In order to avoid the need for the client to interact with more than one agency, which is in itself inefficient and more likely to lead to the client disengaging, the assessment of the client's needs should be done by the free debt advice provider, not MAS, i.e. MAS should refer people on as promptly and smoothly as possible.

Promoting other 'brands': We also have a concern about the MAS brand in relation to what we see as one of its core roles, i.e. in getting people to seek debt advice. If MAS is to fulfil its responsibility as a general provider of money advice, it needs to have a strong brand. Otherwise people will not know to go to them and what help they can get there. However when it comes to debt advice, there are other agencies such as StepChange Debt Charity who provide debt advice and debt solutions who promote their brand so that people get the help they need. StepChange Debt Charity carries out paid-for advertising and outside of this creditors and other organisations refer people to StepChange Debt Charity and other free debt advice charities.

We are concerned with the danger that MAS and the free debt advice charities may end up competing, sometimes using funds from the same ultimate source, to say "come to us for free debt advice". Insofar as this leads to more people getting help, this may not be regarded as a problem. However agencies such as StepChange Debt Charity provide debt solutions – as opposed to advice on its own – and if the referral mechanism from MAS does not work well, the net effect of competing brands may not be beneficial. In its recent pilot advertising campaign "Drop the debt", MAS addressed these issues by not branding the campaign as MAS at all. The material simply referred people to StepChange Debt Charity, Citizens Advice and National Debtline (MAT). While, the results have yet to be examined, there are serious questions for MAS to consider over how its brand is promoted, online and offline, in a way that helps people in debt get to the best outcome for as low a cost as possible.

Facilitating channel shift: As the growth in referrals from the MAS website demonstrated, a substantial proportion of people seek help online. Some people need face-to-face advice but it is not always necessary, and is, in any case, much too expensive to provide to everyone. Many, and perhaps a growing proportion, can be helped online and on the telephone. We need to get more people using telephone and online services – with the latter having the great advantage of being scalable at negligible additional cost[26]. This is not being effectively addressed in the sector at present and should rightly be a key focus for MAS (though the achievement of **channel shift** across the sector is a separate issue compared to extending the provision – or **reach** – of debt advice).

8. What should MAS's balance be between focusing on achieving broad consumer outcomes and focusing on outcomes more specifically linked to current issues faced by mass market consumers such as affording a mortgage with prospective interest rate rises?

StepChange Debt Charity does not have detailed comments at this time although we would say that MAS's legitimacy must be based on serving the whole population –

[26] Helping over-indebted consumers (2010), NAO

and that the service has to be sufficiently flexible and dynamic to meet the whole populations’ needs which will vary from time to time.

9. What role should MAS play in supporting the provision of education in schools? Do you agree that MAS should limit (as now) the role it plays in or should it divert resources to this area?

StepChange Debt Charity has no comment at this time.

10. What are, and will be, the needs of consumers in the retirement / decumulation phase of their lives, especially given the changing nature of retirement itself and the evolving retirement income market? What role should MAS play in supporting consumers to meet these needs?

We believe the experience of individuals with problem debt must be taken into account by whoever provides guidance to consumers in the retirement / decumulation phase of their lives. Under the Government’s plans for pension liberalisation, a key issue is that organisations providing guidance should ensure people get enough help to diagnose a debt problem and direct assistance to work out how much, if any, of their pension should be drawn down to address their debts. If the hand-off from retirement guidance is not designed well, specialist debt advice will face a complex and potentially costly new challenge, which MAS will need to tackle with the sector. We would urge MAS to continue to work in partnership with voluntary agencies, such as Age UK, to identify challenges facing older people and design services accordingly.

11. To what extent should the FCA's new statutory remit affect the relationship between the FCA and MAS?

In April 2014, debt advice and debt management became regulated activities, with the FCA the new conduct regulator for both profit-seeking debt management firms and non-profit organisations like StepChange Debt Charity. For the new regime to be successful, consumers must be able to trust that organisations authorised and regulated by the FCA are operating to high standards of conduct. The FCA authorised 'brand' for debt advice therefore needs to be the primary 'badge' that consumers can rely on.

The FCA's latest research into the commercial debt management sector[27] found wide enough problems for it to initiate a thematic review into the suitability and quality of advice firms provide. This is expected to report in Q2 2015. At the same time, MAS has been fulfilling its 2012 statutory remit to improve the "quality of [debt] services" and the "consistency [of] advice given". MAS has interpreted this function by introducing a new quality framework for debt advice whereby it accredits organisational codes and standards[28] but we believe this has led it to become in effect a quasi-market regulator for debt advice. We have supported accreditation and other initiatives up to now, but with the introduction of the new consumer credit regime in April 2014, regulation of debt advice standards is now properly the role of the FCA. As the sector regulator, the FCA is best-placed to make judgments on the quality and consistency of debt advice.

Further, on a practical level, we believe the MAS accreditation regime does not sit well with the FCA's thematic work, seeming to diverge in its analysis of consumer detriment and risk. For example, MAS has already started badging organisations for advice quality despite concerns about the quality of advice in the commercial sector and well ahead of the conclusions of the FCA's thematic review.

Importantly, the MAS accreditation framework is designed such that it would not give the FCA the necessary lever to exercise direct supervision of firms' advice. MAS has built a system where it accredits standards awarding bodies but this puts the framework at one remove from the organisations that deliver advice. Therefore, there would need to be significant changes to the MAS system if the FCA were to adopt its architecture as a form of direct regulatory control.

Both legislative and practical problems need to be resolved and over time we would like to see MAS's statutory remit adjusted so that it no longer regulates the "quality" and "consistency" of debt advice. As an intermediate step, we recommend that MAS

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[27] Payday Loans, Logbook Loans and Debt Management Services (2014), FCA/ESRO. Chapter 6 esp. pp38-44. Conclusions on the debt management sector are summarised at http://www.fca.org.uk/firms/firm-types/consumer-credit/consumer-credit-research/debt-management

[28] Further information on the MAS quality accreditation framework available at https://www.moneyadviceservice.org.uk/en/articles/about-our-debt-work

and the FCA work out between them where quality judgments best sit. This could probably be best achieved through updating their joint memorandum of understanding[29].

Aside from the regulatory issues we have raised, we believe MAS should continue to judge the quality of its funded projects, measuring delivery of agreed project outcomes and establishing risk indicators that said outcomes might not be achieved.

12. How effective is MAS's model of directly providing consumer financial education to meet its objectives? What is your view on alternative approaches raised as part of the public debate – for example, white labelling consumer content for others, working more through third parties, adopting an accreditation model to promote higher sector-wide standards, or setting aside funds for others to bid for?

StepChange Debt Charity has no comment at this time.

13. How effective is MAS's operating model for the delivery of debt advice? Could it be improved further and if so, how?

StepChange Debt Charity believes the UK needs a long-term strategy for funding debt advice and solutions that promotes appropriate channel shift, prevents unnecessary duplication, and promotes efficient use of scarce resources. MAS's most recent business plan for debt advice suggests that it recognises the importance of these aims. However, there are key areas where MAS needs to refocus its attention and rethink how it delivers on its objectives.

Delivering more for client outcomes: We welcome MAS's new requirements for its grant-funded projects to "promote access to telephone and digital debt advice" to "support more people [with] free, high quality advice." Face-to-face advice will always be required by some – but it would be prohibitively expensive to meet even a material proportion of unmet demand in this way. While we welcome the NAO's conclusion that grant-funded face-to-face debt advice projects have provided good value for money, the spending watchdog found that only six percent of debt advice sessions provided by partners were delivered by telephone or email – even though arrangements with MAS allowed for 22 percent, almost four times as many[30].

We believe that MAS should be taking a more robust approach to multi-channel delivery. Most people are perfectly comfortable with telephone and web-based debt advice which are by far the most cost effective ways of providing debt advice and solutions and extending service reach[31].

[29] The existing MOU between the FCA and MAS dates from April 2013. http://www.fca.org.uk/mou-fca-mas
[30] Helping consumers to manage their money (2013), NAO, 2.4. The NAO has highlighted this area before: in 2010, the spending watchdog called for a shift to telephone debt advice in order to help more people overall. NAO 2010, Op Cit, summary.
[31] NAO 2010, Op Cit, 3.13.

We recommend a number of new approaches. First, we believe the review should consider if MAS's existing procurement strategy is the right one – and if not, whether there should be opportunities for other interested providers to make applications for funding. Second, we believe MAS should shift the success criteria for funded projects to give more weight to reach and channel shift. This would integrate well with our proposed new reach target for MAS (see responses to Q6 and Q17) and complement the 15 client outcomes already used as part of its evaluation framework[32]. Third, it is incumbent on the charitable sector to collaborate where doing so helps more people. MAS should work with us to achieve this.

Maintaining access to debt solutions: We believe MAS should have a bigger role in making sure specific debt advice functions are funded in a sustainable manner. Debt Relief Orders (DROs) for example are a public debt forgiveness mechanism, available as an alternative to bankruptcy to people with low incomes and few assets. Last year we recommended DROs as the best way to deal with debts to over 25,000 of our clients and across the UK arranged 20 percent of all the DROs set up. However, DROs are far from fully funded by the Government. While each DRO costs hundreds of pounds for advice agencies like StepChange Debt Charity to provide, of the £90 fee received by the official receiver, the Insolvency Service only distributes £10 per head to providers. Meanwhile, there has been a significant reduction in funds allocated to this function since the withdrawal of large areas of legal aid. StepChange Debt Charity is therefore recommending that MAS works with the sector and the Insolvency Service to ensure long-term plans are put in place to maintain sustainable access to this type of debt solution.

MAS and the client journey: The key issue for people in debt is getting good quality, free advice to resolve their problems before debts escalate to unmanageable levels. We believe the MAS operating model should therefore be focused on extending the reach of the not-for-profit debt advice sector to the diverse groups of people who encounter debt and associated problems. We believe MAS is well placed to use different communication methods to build awareness of free debt advice generically and encourage people to the correct option that works for them.

MAS's recent generic marketing campaign, 'Drop the debt', is a case in point. This focussed on particular towns identified as having high levels of over-indebtedness, using billboards, leaflets and radio advertising in order to reach less well-off consumers. There is a clear role for MAS in advertising and signposting free debt advice and we will be interested to work with MAS on similar initiatives (of which we hope there will be more) in the future.

Similarly, alongside creditors and other statutory bodies, MAS can usefully refer and "hotkey" people to agencies such as ourselves and the Citizens Advice service.

[32] For the full list of outcomes, see the debt advice evaluation framework: www.moneyadviceservice.org.uk/en/tools/debt-advice-evaluation-toolkit-registration

However MAS will not assist people struggling with their debts if it introduces additional steps to the customer journey or tries to play a role in "processing" people seeking help, for example through 'triage'. The experience of advice services across the board suggests interposing additional steps between the individual and practical help leads to people dropping out of the process. To this end, moves by MAS to position itself as a gateway for both money and debt advice have proven unhelpful.

Helping the online journey: As we know from our own experience, online promotion is a powerful and cost-effective way of reaching a substantial number of people with debt problems. MAS, too, has been very effective in building awareness of its website. As we have mentioned (Q7), excluding search engines, MAS is now the second largest referral source to the StepChange Debt Charity website. This is positive and good both for us and the people seeking help, a substantial proportion of whom go on to full advice sessions, both online and by phone.

However, the online space and its all powerful search engines are sensitive to promotional activity and MAS needs to ensure that its online promotional work does not impose that additional layer or layers between the consumer and debt advice which we know can deter people from completing the journey. We believe MAS's online operation should be required to take a more collaborative approach with free advice agency partners, including in its search engine strategy.

There are several areas where MAS's online operation could have an impact – for good or ill – on the free debt advice providers. For example, if MAS uses its **web content** on debt to target people *before they're actively seeking crisis advice*, it could help to 'grow the market' for free debt advice. As a result, people in financial difficulties might start to access help at a more optimal time – i.e. before debts start to escalate. On the other hand, if MAS changed **editorial policy** to cover debt solutions in depth, its high profile in search results would take more web traffic, hindering the free sector's ability to directly reach a lot of qualified new clients with personal advice and solutions.

Website design is also important: MAS should be linking to free debt advice agencies in a way that is as clear and simple as possible. MAS's online operation should be geared to streamline the customer journey and avoid haemorrhaging potential clients. We believe there are some areas of the existing MAS site where a shorter customer journey to debt advice providers would strike a better balance. For example, when people are directed to the MAS website by payday lenders, it takes seven or eight clicks to get through to the contact details of the free debt advice providers. We believe it should be fewer.

14. How effective is MAS in engaging with stakeholders in the money and debt advice sectors? Are there ways in which this could be improved and if so, what are they?

Since taking on its debt advice remit, MAS has engaged well with sector partners and opened up spaces at all levels for engagement. We understand that the criticism MAS has faced from stakeholders has largely been confined to its money advice work strands, and we are pleased that current opinion is that there's been significant improvement here.

15. Is the current £81.1 million annual budget for MAS appropriate, given the remit of the organisation and its objectives? If not, should it be more or less and how should it be allocated? What is your judgement on where to draw the line?

Our comments are confined to the MAS budget for debt advice. In view of MAS's responsibilities and the outstanding need for free-to-consumer debt advice and solutions, we believe there is a strong case for MAS to seek from the FCA additional monies to support the profile and provision of not-for-profit debt advice. MAS research shows that fewer than one in five of the over-indebted population gets help to resolve their problems. Extending the reach of the sector therefore has to be a priority for MAS. At the same time, an increased budget would be good value in securing protection for consumers from the bad practice that exists in the commercial sector and making the debt advice market 'work well' – fulfilling two of the FCA's key statutory objectives.

Now that thousands of consumer credit firms are set to pay the debt advice levy for the first time, new funds for debt advice can be sought without necessarily increasing the burden on existing payers. Funding may not need to rise from the current level in proportion to the unserved population if the sector can deliver a more efficient multi-channel service. We believe MAS has a role in pump-priming new projects and partnership arrangements in the sector and improving efficiency of delivery. We recommend that alongside a specific commitment to a level of face-to-face provision sufficient to meet client need, MAS should open up its debt advice budget for other interested providers to bid on – in effect, this would see the introduction of a new debt advice 'Challenge Fund'.

16. Are there any lessons from things MAS or other organisations do particularly well, that could be applied to one or more of MAS's functions?

StepChange Debt Charity has no comment at this time.

17. How should MAS be measuring its efficiency? For example, what benchmarks should MAS be using to determine its efficiency in its online, phone calls and face-to-face delivery?

We answer this question from the perspective of debt advice only. The efficiency of the sector is a concern and there is a key question over the appropriate channel mix that has yet to be sufficiently addressed. Face-to-face advice is needed by some but it is far too expensive to provide to those who are comfortable getting help online or on the telephone. Some circumstances require it but in most cases, debt advice works effectively regardless of the channel through which it is delivered.

MAS recognises all this and we welcome its plans this year to start tracking the number of telephone advice sessions provided by funded partners – which goes further than simply looking at how many face-to-face advice sessions take place. The advice sessions provided by the sector as a whole will, more-or-less, also be counted for the first time. In general, both these steps are welcome. However, much more remains to be done.

For example, in light of the significant over-indebted population needing help more generally, we believe MAS should be focused on a target that aims to stretch the debt advice sector's reach.

In addition, we are worried that if MAS counts clients of commercial debt management companies, it might be counting failure as a sign of success. MAS has previously said part of its job is to make sure consumers see the free debt advice sector as "the better option for them"[33] agreeing that a sign of its success would be if "[for-profit] debt management companies began to struggle and even go out of existence"[34]. Therefore, we believe that a more appropriate measure of its effectiveness and efficiency must instead be the numbers of clients helped specifically by non-profit providers. This should stand in contradistinction to the numbers using for-profit advice.

Equally, we would like to see more emphasis on debt advice outcomes as a measure of the efficiency of MAS. Out of 15 debt advice outcomes MAS has identified[35], only three will be counted as one of its four measures of success[36]. While we recognise there is some crossover in outcomes, only one of the outcomes targeted by MAS involves action by the client. We believe measuring MAS's efficiency could be more action-focused reflecting MAS's emphasis elsewhere on improving people's financial behaviours.

[33] BIS Committee evidence session on Debt Management, 2011, MAS response to Q166, accessible at http://www.publications.parliament.uk/pa/cm201012/cmselect/cmbis/uc1649-iii/uc164901.htm

[34] Ibid, Q171

[35] For the full list of outcomes, see the debt advice evaluation framework: www.moneyadviceservice.org.uk/en/tools/debt-advice-evaluation-toolkit-registration

[36] MAS target for 'debt advice outcomes', c.f. response to Q19

18.What sort of people skills and experience do you think MAS needs over the coming period, in order to be effective?

StepChange Debt Charity has no comment at this time.

19. Is the way MAS measures its performance optimal? If not, how can MAS best measure its impact and value for money?

We restrict our comments to MAS's impact targets for debt advice where we also make recommendations.

MAS has two existing measures to evaluate how it fulfils its statutory remit on debt advice, with a further two in the pipeline. The two existing measures relate solely to its granted funded partners and are:

- **Debt advice sessions** – the number of face-to-face and telephone advice sessions provided. Target – 150,000 sessions over 6 months (starting October 2014 – its previous target covered face-to-face sessions alone).
- **Debt advice outcomes** – the proportion of clients advised who (1) understand the steps needed to sort out their debt problems, (2) take action accordingly, and (3) see their level of debt reduce. Target – 93 percent, 88 percent, 76 percent respectively[37].

MAS is also working on a baseline measure of its **influence over the debt advice sector as a whole** – to be measured via an annual stakeholder survey. And finally, its plans include a new quantitative measure to assess the number of **clients supported by debt advice** across **the whole sector** that:

- works to a standard that meets its quality framework (quality)
- uses a single financial statement (consistency)
- helps clients access the right channel (availability)

We have a number of concerns about this final performance measure. First, we are worried that by counting clients of commercial debt management companies, MAS might count failure as a sign of success. We believe it would be a retrograde step for MAS given the advice freely available from the non-profit sector and concerns over the quality of commercial debt advice. Further, it sits directly opposite comments made by its former Chief Executive Tony Hobman to a BIS Committee Inquiry in 2011 where he agreed that a sign of MAS's success would be if "[for-profit] debt management companies began to struggle and even go out of existence"[38].

[37] MAS set out these targets in a recent press release – 'More and more Money Advice Service customers are taking action' (2014), MAS https://www.moneyadviceservice.org.uk/en/static/q1-results, note 6
[38] BIS Committee evidence session on Debt Management, 2011, MAS response to Q171, accessible at http://www.publications.parliament.uk/pa/cm201012/cmselect/cmbis/uc1649-iii/uc164901.htm

Therefore, we recommend that a more appropriate success measure for MAS would instead have regard to the numbers of clients helped to a good standard (Q11) specifically by non-profit providers. This should stand in contradistinction to the numbers using for-profit advice.

Our more general concern is that this final measure implies some kind of regulatory role for MAS. Accordingly, we believe this success measure – which is still being developed at this point – should be re-envisaged. As above, we recommend a more useful measure, that is, how many clients the not-for-profit sector is helping – against either the for-profit sector or the numbers of over-indebted people needing help more generally – where, as per MAS's own research, we believe there is a real need for a stretching reach target.

20. Are the current accountability arrangements for MAS appropriate? If not, in what ways should it be strengthened?

StepChange Debt Charity has no comment at this time.

21. To what extent, if at all, should MAS devote resources to public policy issues such as the tax and benefits system?

We welcome MAS's focus on the risk and detriment caused by low levels of financial capability; we believe this focus will help to support the work of organisations aiming to improve the nation's financial health, including preventing problem debt. MAS is well-placed to provide research that monitors the impact of various reforms to social security, such as the direct payment of housing benefit and the payment of Universal Credit in arrears. This could provide insights to debt advice agencies helping to ensure they target their budgeting advice and support at groups who are most in need.

MAS continues to develop its research into the segments of society most likely to become over indebted. In particular, MAS could provide further diagnostic work on the key indicators and tipping points for problem debt in order to help develop direct-to-consumer marketing plans that steer people at such tipping points towards free debt advice.

Some debt solutions are run by government, although the bulk of the cost falls on the agencies such as ourselves. For example, last year the best solution recommended to over 25,000 clients was a Debt Relief Order (DRO), but DRO intermediaries are a largely unfunded service and there has been a significant reduction in funds allocated to this function since the withdrawal of large areas of legal aid. We would like MAS to work with the sector and the Insolvency Service to ensure long-term plans are put in place to maintain sustainable access to this type of debt solution.

Direct help to agencies which can provide debt solutions, so that advice leads quickly to the provision of effective solutions to people experiencing problem debts might be a good use of any new levy resources. With MAS, we need to have a sensible discussion with the Insolvency Service to improve efficiency and reduce the costs of DROs to the sector.

22. Do you have any further evidence on issues in relation to MAS, not covered in your responses to the questions above, that you would like the review team to consider?

StepChange Debt Charity has no comment at this time.