

PART FIVE

Financial Capability

The effectiveness of the FSA's work on Financial Capability depends on how well it understands current levels of financial capability, sets out its objectives for improvement, designs and implements programmes and projects targeted at achieving significant levels of change in consumer capability and evaluates the success of its activities in achieving its aims.

This section shows:

■ overall allocation of resources to financial capability

The FSA has taken a strategic lead in addressing financial capability. It identified low financial capability among UK consumers as a risk for financial services markets. To understand and address this risk, it carried out a comprehensive survey of current standards and started to implement projects to improve financial capability. It plans to spend around £90 million in this area between 2006 and 2011. At present it cannot easily quantify the costs of low financial capability to society or how far it is helping to improve the situation so that it can judge if this allocation of resources is appropriate (paragraphs 5.1 to 5.19).

■ working with other organisations on financial capability

In providing leadership and coordination, the FSA has played a major role in placing financial capability on the agenda of government and the financial services industry. The FSA is also working successfully with a range of partners to deliver its projects. It regards its role in building financial capability as long-term and has set five year expenditure plans to provide certainty for industry and delivery partners. Links between the projects and between the National Strategy for Financial Capability and the FSA's other regulatory activity could be improved. The FSA has not yet set out its high level priorities and approach for its financial capability work post-2011 (paragraphs 5.20 to 5.35).

Overall allocation of resources to the National Strategy for Financial Capability

5.1 The FSA is a world leader in financial capability. It identified that consumers are facing risks from inadequate understanding of financial concepts and products at a time when they are being asked to take on more responsibility for their long term financial planning. In 2003, responding proactively to this risk and under its statutory objective to improve public understanding of the financial system, the FSA launched an ambitious National Strategy for Financial Capability. Financial capability is a broad concept, encompassing people's knowledge and skills to understand their own financial circumstances, along with the motivation to take action. The FSA has set out a vision of encouraging 'better informed, educated and more confident citizens, able to take greater responsibility for their financial affairs and play a more active role in the market for financial services'¹²⁷.

5.2 To support its strategy the FSA has committed to spending £15 to 20 million on financial capability each year between 2007 and 2011. In 2007-08 this will represent approximately 5.7 per cent of the FSA's total budget, up from 1.4 per cent in 2004-05 (see [Figure 24 overleaf](#)).

5.3 The FSA's approach to financial capability goes beyond the provision of information, and focuses on shifting attitudes and behaviours – for example choosing a financial product is not a purely rational decision; consumers must also have trust and confidence in the supplier and product they select. Changing consumer behaviour is a more challenging task for the FSA to undertake. But it is more likely, if successful, to lead to positive outcomes for consumers.

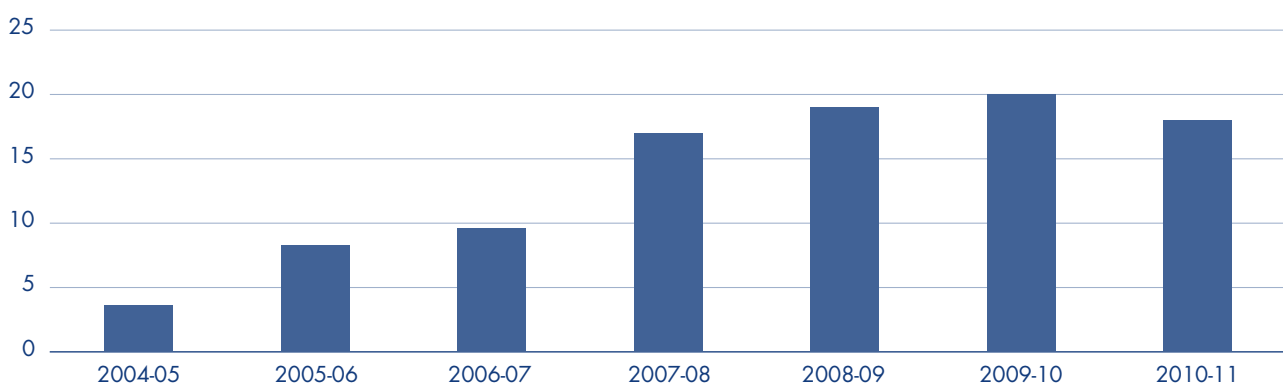
5.4 Government guidance on effective communication with customers, including communication designed to shift individual behaviour, emphasises the need to understand people's motivations, needs and barriers; segment and target key audiences; use a variety of communications channels; and collaborate with policy and service delivery partners and stakeholders.¹²⁸

5.5 The FSA has followed this approach. In addition to providing consumer information through its revamped website, online tools and publications, the FSA has developed, piloted and is beginning to implement a series of projects which are aimed at improving financial capability in a range of key audiences – particularly schoolchildren, young adults, employees and new parents. In March 2006, the FSA published a comprehensive baseline survey into levels of financial capability in the UK (**Figure 25**).

5.6 These activities put the FSA ahead of most of its international peers in financial capability. For various reasons, including resources and remit, most international comparator organisations generally confine themselves to information provision and awareness raising activity. For example, the US General Accounting Office found that the US National Strategy for Financial Literacy was largely descriptive without a plan for implementation.¹²⁹ International bodies regarded the FSA's baseline survey as a model for their own work. The Financial Regulator

24 FSA expenditure on Financial Capability 2004-05 to 2010-11

Financial Capability Expenditure £ million



Source: National Audit Office analysis of FSA figures

NOTE

Expenditure for 2007-08 – 2010-11 is forecast.

25 FSA's baseline survey of Financial Capability in the UK

In 2006, the FSA published the results of a nationwide survey of 5,328 people designed to measure levels of financial capability in the UK. National Audit Office experts in survey design examined the methodology and findings of the survey and found it comprehensive and professional.

The FSA identified four key themes from the survey results:

- large numbers of people, from all sections of society, are not taking basic steps to plan ahead;
- although only a small proportion of the population is experiencing problems with debt, they are often very severely affected and many people could be tipped into financial difficulties by a small change in their circumstances;
- many people are taking on financial risks without realising it, because they struggle to choose products that truly meet their needs;

- the under-40s, on whom some of the greatest demands are now placed, are typically much less financially capable than their elders.

It would have been preferable if the FSA had had the survey results available before it drew up its seven priority areas for the National Strategy for Financial Capability, although waiting for the results would have delayed implementation. The FSA is, however, now using the results of the survey to inform its priorities for the national strategy and its wider regulatory work to help retail consumers achieve a fair deal. The FSA also intends to repeat the survey every four to five years to measure the impact over time of initiatives to improve financial capability, including its own seven point programme of action.

Source: National Audit Office

in Ireland has commissioned its own survey based on the FSA's. The FSA has also been able to learn from the work of international organisations. For example, it used the New Zealand Retirement Commission's financial capability website 'Sorted' as a best practice example when redesigning its own consumer website.

5.7 There are two main rationales for interventions to improve financial capability: social justice motivations such as reducing financial exclusion and problem debt; or market outcomes including increased competition and personal responsibility and therefore less regulatory interventions. The FSA has clearly explained the benefits of improved consumer financial capability to both society and the market in broad terms. However, it has not quantified the costs of low financial capability or the benefits of improvements to the consumer, the financial services industry or society in general.¹³⁰ Nor has the FSA set out examples of the circumstances in which consumer capability would have reached the necessary level for it to reduce its regulation of the financial services market or its expenditure on financial capability.

5.8 Using the Financial Capability survey, the FSA defined the core skills which consumers need to manage their money well and to engage effectively with the financial services industry. These are reflected in its financial capability projects and consumer information. But the FSA has not yet brought this together with other regulatory information to articulate its vision of the rights and responsibilities of consumers when dealing with financial service markets and how the FSA's financial capability programme and wider regulation will help achieve that vision. It will be important to coordinate with other organisations involved in financial capability to ensure consumers receive coherent messages about their rights and responsibilities.

5.9 The FSA's Financial Capability survey will be repeated every four to five years and was specifically designed to show where initiatives are having most effect and where more work is needed, which demographic groups are being reached, which messages are getting through and how rapidly the FSA are making progress.¹³¹ However, the FSA has not set out the shifts in financial capability levels it expects to see in the next Financial Capability survey in 2010-11. The FSA does not believe that the Financial Capability survey is a suitable tool against which to set objectives and does not expect to see real improvement appearing in these trends for fifteen years or more.¹³² It is therefore important that evaluation of the overall impact of the programme is carried out in the medium term.

5.10 The planned overall outcomes for the Financial Capability Strategy cover the full range of measures including input measures such as resources, the number of people reached, changes in consumer behaviour and improved outcomes. However, measures relating to changes in behaviour and improved outcomes are not quantified and are inherently difficult to measure (Appendix 5a has a full list of planned outcomes). Without being able to estimate or measure the impact of its work on consumer behaviour and outcomes, the FSA cannot assess if its overall allocation of resources to financial capability is appropriate.

Allocation of resources to financial capability projects within the National Strategy

5.11 Under its National Strategy for Financial Capability, the FSA identified seven priority areas in which to target their work. These are schools; young adults; workplaces; consumer communications; online tools; new parents; and money advice. Three of the priority areas (schools, young adults and new parents) target key life stages – an approach recommended by consumer experts.¹³³ The FSA has also made efforts to target other interventions at specific demographic or socio-economic groups based on the findings of the baseline survey, for example particularly recruiting employers with a higher proportion of young or lower income staff for the workplace seminars.

5.12 A number of stakeholders felt that older people should also have been a priority area under the Financial Capability strategy. The FSA is looking to reach older people by working with intermediaries as part of its money advice strategy. It also plans to look at how it meets the needs of older people as part of its examination into the issues arising from greater life expectancy, changes in lifestyle and the increasing need for consumers to take personal responsibility for their financial affairs. Some stakeholders also considered the National Strategy should have had greater focus on disadvantaged groups. The FSA is focusing on the needs of disadvantaged groups through its Innovation Fund projects and wider financial inclusion activities such as its work with Credit Unions.

5.13 Working with a variety of delivery partners, the FSA developed business cases for a range of projects in these priority areas. It undertook pilot projects in each area, and evaluated the results, before committing further expenditure (**Figure 26 overleaf**).

26 FSA's Financial Capability projects in delivery phase

- **Learning Money Matters:** a comprehensive 'One Stop Shop' service to provide teachers with support, training and resources to deliver personal finance education.
- **Money Doctors:** a toolkit for universities offering new and proactive approaches to engaging students to take control of their own finances before they face difficulties, and to confront debt problems.
- **Fairbridge West:** 'On Your Own 2 Feet': A practitioner toolkit on embedding money management and financial skills into existing courses, one-off sessions and stand alone courses for the most vulnerable and hard to reach young people.
- **Citizens Advice:** 'Frontline Training': financial capability training for intermediaries working with young people such as social services, youth offending teams and Connexions personal advisors.
- **Make the Most of Your Money:** financial education booklet and seminars delivered to employees through their workplace.
- **Consumer Communications:** more targeted, engaging and accessible consumer communications through the FSA website and publications.
- **Online tools:** development and distribution of online tools such as the 'Financial Healthcheck' and the 'Debt Test' to help people to assess their financial situation and, if necessary, to take action and get further help.

A number of pilots for further projects for young adults, in the Further Education sector and for new parents are still taking place. In addition, several smaller scale projects have been funded through the Innovation Fund.

Source: National Audit Office

5.14 The budget and reach of each project varies. For example, over five years the budget to achieve a 'significant' increase in the number of visitors to FSA online tools is just under £5 million whereas the budget to provide workplace information to four million people, 500,000 of whom should attend a seminar, is £13 million. However, the numbers of people reached, although important, are not the key indicators of success of a programme aimed at changing individual behaviour and outcomes. **Figure 27** sets out potential costs of the projects per person reached alongside some comments on the potential of the projects to impact on the behaviour and outcomes for consumers dealing with the financial services market. These costs only refer to FSA expenditure. The FSA's financial capability projects also benefit from resources contributed from stakeholders such as teachers, the Qualifications and Curriculum Authority and employers. It is difficult to quantify these resources and therefore they have not been included.

Evaluating the success of the financial capability projects

5.15 The FSA has developed an impressive range of targets in each of its seven priority areas (see Appendix 5b). It has outlined 39 targets over the seven areas to be met by 2006-07 and a further 26 to be met by 2010-11. This includes targets on infrastructure, funding and reach. For example the FSA aims to send four million people

financial information through the workplace by 2011, with 500,000 attending a seminar. Outcome related targets such as 'evaluation shows that consumers using [FSA] information demonstrate improved financially capable skills/behaviours' are not quantified and are difficult to measure. Developing its evaluation of the impact each project has on participants' behaviour and outcomes, alongside the results of the Financial Capability survey, will help the FSA make judgements about the appropriate allocation of resources within financial capability.

5.16 The FSA makes provision for evaluation of all of its major projects and collects a range of information to assess success. For example the FSA surveys participants before and after its workplace seminars although there are limitations to the usefulness of this information (**Figure 28 on page 57**). The FSA could make more of the opportunity provided by workplace seminars. Research suggests that financial education programmes delivered through the workplace can be evaluated using the information held by employers such as employee participation in pension schemes. If this information can be collected in advance, any changes following the seminar can be measured.¹³⁴ And studies in the US have managed to show that, controlling for other factors, median savings rates are 22 per cent higher for individuals whose employers offer financial education.¹³⁵

27 Costs, reach and potential impact of Financial Capability projects

Priority Area	Description	Cost per person reached 2006-11	Potential to impact on consumer behaviour and outcomes
Schools: Learning Money Matters	Working with the personal finance education group to provide teachers with support, training and resources to deliver personal finance education.	£10.33 per person reached Target: 1.8m children Budget: £18.6m	<ul style="list-style-type: none"> ■ Uses a life stage approach, although not at a time of key financial decisions; ■ US research suggests financial education in schools can positively impact on financial outcomes in later life; ■ School education programmes used in other sectors e.g. health improvement and sustainability; ■ Can provide some tailored information to individuals; ■ Works through trusted intermediaries; ■ Benchmarking survey of financial education in schools undertaken, toolkit being developed to assess student progress, achievement and confidence; ■ Clear strategy for reducing expenditure while maintaining impact.
Young Adults: Helping Young Adults Make Sense of Money	A variety of projects with a range of partners aimed at university and further education students and young adults not in employment, education or training.	Not available Target: Not yet developed Budget: £10.7m	<ul style="list-style-type: none"> ■ Uses a life stage approach; ■ Reaches young adults at key decision points such as starting university; ■ Targets some vulnerable groups; ■ Can provide some tailored information to individuals; ■ Works through trusted intermediaries and sector experts; ■ Evaluation framework to assess benefits to youth work organisations in achieving their own targets and a self assessment tool for young adults are being developed; ■ Some potential for impact to continue after FSA funding reduced.
Workplace: Make the Most of Your Money	Education packs and seminars on key financial issues delivered to employees in the workplace.	£3.33 per person receiving information Target: 4m people receive information, 500,000 attend a seminar Budget: £13.3m	<ul style="list-style-type: none"> ■ Although targeting a broad audience, it allows for further segmentation through targeting particular workplaces; ■ Research from the US suggests workplace education can positively impact on financial outcomes; ■ Evaluation shows an average of 60 per cent of participants have taken action on their finances three months after participating in a seminar; ■ Linked with key financial decisions made due to employment e.g. on pensions or income protection insurance.

27 Costs, reach and potential impact of Financial Capability projects *continued*

Priority Area	Description	Cost per person reached 2006-11	Potential to impact on consumer behaviour and outcomes
Consumer communications	Revamped consumer website and publications to provide information on a wide range of financial issues supported by specific consumer campaigns.	£3.85 per person reached Target: 4m people Budget: £15.4m	<ul style="list-style-type: none"> ■ Although website targets a broad audience, publications and campaigns can be targeted at segmented populations and those at key decision points; ■ Considerable consumer research carried out in support of revamped consumer website and publications; ■ Easily accessed, wide ranging information available although it cannot be tailored to individuals; ■ Consumer campaigns may help overcome lack of awareness of FSA consumer role.
Online tools	Increasing the use of the Financial Healthcheck and Debt Test through syndication to partner websites.	Not available Target: a 'significant increase' Budget: £4.9m	<ul style="list-style-type: none"> ■ Easily accessed information which could prompt further action; ■ Some tailoring of information; ■ Some opportunities for segmentation and targeting through selection of partner websites.
New parents: the Parents Guide to Money	Development and distribution of a toolkit for new parents to provide information on all the financial issues associated with parenthood.	£8.53 per person reached Target: 1.5m new parents Budget: £12.8m	<ul style="list-style-type: none"> ■ Follows a life stage approach; ■ Targets particular segment of the population at a key decision point; ■ Likely to use joined up delivery channels and trusted intermediaries such as workplaces and health professionals.
Money advice	Developing a general unregulated financial advice service. The government is now leading in this area.	Not available Target: No target on reach (projects not yet developed) Budget: £7.2m	<ul style="list-style-type: none"> ■ HM Treasury has commissioned a taskforce to design a generic advice capacity; ■ The FSA is focusing on building capacity to provide basic "entry level" advice through intermediaries for example by developing more widely successful projects from the Innovation Fund (see below); ■ Work by the Resolution Foundation suggests a national generic advice service could lead to improved financial outcomes.
Innovation Fund	Provides funding for smaller projects with potential for wider replicability across a number of sectors aimed at improving financial capability.	Cost per person reached will vary depending on the project. An example figure from one of the most advanced projects is £3.34 per person reached¹ Reach: 3,964 (at end of January) Expenditure: £13,242	<p>Depends on projects, but:</p> <ul style="list-style-type: none"> ■ Potential to target audiences by life stage, key decision points and other segmentations e.g. project aimed at offenders; ■ Access to vulnerable groups; ■ Works through trusted intermediaries and sector experts; ■ Can provide some tailored information; ■ Potential for impact to continue once FSA expenditure reduced.

Source: National Audit Office

NOTES

1 Omagh Independent Advisors project to develop a booklet and website of financial advice for families of those suffering with cancer. Figure will decrease over time as the number of visits to the website increases.

2 Cost per person reached figures are estimates based on provisional budgets up to 2011-11 and therefore subject to change.

28 FSA's Evaluation of workplace seminars

Seminar participants fill in a short questionnaire rating their knowledge, understanding and ability before the seminar. They are then asked to re-rate themselves after the presentation. Participants are also asked if they are likely to take action as a result of the seminar. The FSA contacts a sample of participants three months after the session to find out if they have actually taken action. To date an average of 60% have taken action.

This approach is an encouraging early attempt to evaluate the impact of the programme on consumer behaviour. For several reasons, however, it is of limited use. The questionnaire relies on self-assessment and is therefore subjective. The range of actions to take is limited and includes options such as "generally review my money affairs, plans and goals": such an action may have no effect on behaviour. The evaluation provides no information on whether improved outcomes were achieved. To date the follow up has only been carried out after three months and cannot yet provide any long term data. The FSA is putting in place plans to develop and improve its evaluation of workplace seminars.

Source: National Audit Office

5.17 The FSA recognises that it needs to develop the evaluation side of its work in order to demonstrate its increased investment is providing value for money. Yet evaluating the outcomes of behaviour change programmes is difficult. The FSA is concerned that it might set arbitrary measures and may not be able to attribute a change in behaviour to its own work. The FSA could consider the following options:

- **Extrapolating from previous trends, academic research and studies on the experience of other organisations:** Research in the US shows that, controlling for other factors, people aged 35-49 who had received financial education were better off by about one year's worth of earnings and tended to save about 1.5 per cent more of their income each year compared to those who had not received financial education.¹³⁶ Transposing these results to the UK, the IPPR suggested that, for example, by their late forties the average couple with no children could be around £22,000 better off as a result of having taken better financial decisions throughout their lives.¹³⁷ The FSA may be able to use similar techniques to predict an achievable level of impact its projects may have;
- **Exploring the use of modelling techniques:** The FSA has previously carried out research which aimed to quantify savings to consumers from acting in a more financially capable way, for example it showed that a typical consumer could gain between £70 and £710 a year by making better financial product choices.¹³⁸ The Resolution Foundation has attempted to model the potential impact of providing financial

advice to people on low to moderate incomes suggesting, for example, that young people could experience an increase in annual retirement income of £1,500.¹³⁹ The FSA may be able to use similar techniques to predict potential quantified savings for consumers benefiting from their programmes.

5.18 The FSA may be able to build on its successful record of consumer research by using sophisticated methodologies to demonstrate a clearer link between improved outcomes and its own work. For example, it could revisit the possibility of complementing its survey with longitudinal research to track the outcomes of those involved in its programmes. Even more valuable would be to compare these outcomes with a 'control' group who had not been involved in an FSA programme. The FSA could also consider developing joint outcome-based indicators with other bodies whose work will affect levels of financial capability such as HM Treasury.

5.19 It may be possible for the FSA to make use of existing information. Data on the financial position of consumers and their interaction with the financial services industry is collected by a number of different bodies including firms, local authorities, consumer bodies and market research companies. In some cases, the FSA may need to use new interpretations of data to evaluate the cause of changing trends. For example, an increase in complaints – traditionally regarded as a signal of market problems – could indicate consumers are becoming more aware of their rights as capability increases.

Working with others on financial capability

Providing leadership

5.20 The FSA has highlighted the issue of low financial capability in the UK and put it on the agenda of government and the financial services industry. In 2003, the FSA set up a Financial Capability Steering Group made up of senior and influential individuals from the FSA, government, industry and the voluntary sector and issued a series of documents developing a National Strategy for Financial Capability and an action plan for implementation.¹⁴⁰ The steering group identified seven priority areas and convened working groups to develop proposals for action.¹⁴¹ Between 2003 and 2007, over 100 expert representatives from a wide variety of organisations have been involved in these working groups. The FSA provided vital coordination and direction; the OFT's mapping of consumer education found that financial education appeared to be the most coordinated topic of those examined, with the FSA Financial Capability Initiative leading and other overarching activities coordinating gaps and duplications.¹⁴²

5.21 Working group members consider the FSA to be outward facing and to have made a real effort to be inclusive. The FSA reached important people in a range of sectors. This is particularly impressive given the FSA has reached out to organisations, particularly in the voluntary sector, with which it would not usually have contact. Working with different organisations could require the FSA to adopt different approaches from the rest of its work. For example, stakeholders felt the working group discussions often had limited influence on the FSA's wider programme and that the FSA could have consulted earlier in the development of its strategic thinking on financial capability.

5.22 Stakeholders also emphasised the importance of the FSA and government working together on financial capability. This joint approach was exemplified through the first joint FSA/HM Treasury conference on Financial Capability in November 2006 and the publication of the Treasury paper on the government's long term approach to financial capability in January 2007 announcing the creation of the Thoresen Review to design a national generic advice service.¹⁴³ As the regulator of the financial services industry and lead organisation on financial capability the FSA will need to remain closely involved in the development of such a service. For example, the FSA is seconding staff to the Thoresen Review taskforce.

5.23 The FSA has worked hard to involve the financial services industry in its Financial Capability Strategy. Representatives from firms and trade bodies sit on the Financial Capability Steering Group and have been involved in the working groups; financial advisors are used to deliver the workplace seminars and the FSA currently has a number of secondees provided for free by industry. The financial capability team has also presented to the Boards or senior committees of many of the major financial industry trade bodies and, for example, the Association of British Insurers told us that generally its members thought that funding the FSA's financial capability programme through the levy was appropriate, so long as it proved to be value for money.

5.24 Some industry representatives in our focus groups expressed scepticism about the FSA's financial capability work and the Financial Services Practitioner Panel showed that 31 per cent of firms rated FSA's performance on 'improving public understanding of the financial system' poorly and only 16 per cent rated it well (**Figure 29**).

Working with delivery partners

5.25 A number of the financial capability projects are now being fully implemented by the FSA and its delivery partners. Learning Money Matters, the free support service for schools, and *Making the Most of Your Money*, the information packs and seminars delivered through the workplace, are now being delivered to target audiences. The Parents Guide to Money, the advice pack for new parents, is still in pilot stage.

5.26 The FSA's progress on Money Advice has moved most slowly. A not-for-profit organisation, the Resolution Foundation, has been the lead body in research and lobbying on developing a generic advice capacity. The government is now taking the lead on money advice with its Thoresen Review of Generic Financial Advice and the FSA has reallocated its Money Advice resources to working with intermediaries to develop capacity to provide entry level money advice. This will include developing more widely projects from its Innovation Fund. The Innovation Fund provides seed funding for small scale financial capability projects with potential for replication on a national scale (**Figure 30**). The large scale development of some Innovation Fund projects provides the potential to target some important groups based on the findings of the baseline survey such as older people or social housing tenants.

29 Practitioner views of the FSA's performance in improving public understanding of the financial system

Category	Rating (out of ten)	Percentage of regulated firms %
Good	7–10	16
Average	4–6	50
Poor	1–3	31
No answer	N/A	3

Source: Financial Services Practitioner Panel Survey of Regulated Firms

30 Innovation Fund

The FSA launched the Innovation Fund in June 2005. It provides a total of £200,000 in seed funding to small organisations across a variety of sectors to develop projects aimed at improving financial capability. The fund aims to take advantage of the knowledge and contacts of sector experts in a 'bottom up' approach to financial capability.

One of the key criteria for selection is a project's potential for replicability on a national scale. The FSA will provide support and extra resource to help organisations develop initial outputs into toolkits and other products which can be rolled out more widely with the help of umbrella organisations. For example, the FSA provided £35,000 to London & Quadrant Housing Trust to enable them to carry out one-to-one sessions with social housing tenants to provide them with financial capability advice leading to a personalised action plan. The FSA then worked with the Chartered Institute of Housing, providing an extra £4,000 funding, to produce a good practice guide that is anticipated to reach around 25-30,000 housing officers and affiliated professionals, helping them to help their clients with day-to-day money and benefits decisions. This represents a cost of £1.42 per housing officer reached.

Source: National Audit Office

5.27 The FSA's partners are positive about their relationships with the FSA. They appreciated that the FSA has involved sector experts and trusted intermediaries to deliver the projects. In their opinion, the FSA had generally achieved the correct balance between providing strategic input and close support and allowing delivery partners the necessary autonomy. Stakeholders also praised the FSA's use of secondments to and from delivery partner organisations to support the development of the projects.

5.28 One of the key challenges for the FSA is to increase and exploit the linkages between the projects. Partners were often not aware of activity on other priority areas which they felt could be relevant to their own projects. For example, workplace seminars do not always make the relevant references to other financial capability projects.

Long-term plans for financial capability

5.29 Most stakeholders consulted by the NAO suggested that the FSA's expenditure of up to £20 million per year is insubstantial given the scope of the problems revealed by the Financial Capability survey. There is no complete picture of the total resource spent on increasing financial capability by government, industry, the voluntary sector and other bodies in the UK.¹⁴⁴ Given the FSA's primary role as regulator, it does not consider it appropriate to

spend greater amounts of money. Instead, it sees its commitment as a way of encouraging other organisations to contribute. Echoing this, most stakeholders told us that any significant extra funding should now come from government or the financial services industry.

5.30 The FSA has committed £90 million expenditure on Financial Capability up to 2011. It does not have a clear longer-term resource allocation strategy beyond 2011. Many stakeholders from a variety of sectors expressed doubt as to whether the regulator is the correct body to lead on financial capability in the long term. Despite these doubts, many concluded no other body was obviously better placed to take the lead and views differed on what degree of responsibility should lie with government, the financial services industry or other organisations such as the Office of Fair Trading¹⁴⁵. Some stakeholders expressed concern that the FSA, whose primary role is regulating financial institutions, may not be able to devote the necessary resources and attention to financial capability. They also questioned whether the regulator was the best body to undertake programmes designed to change consumer behaviour.

5.31 The Government has set out its long-term approach to financial capability.¹⁴⁶ The FSA regards its role in building financial capability as long-term. It has set five year plans for its priorities and expenditure plans to provide certainty for industry and delivery partners. These plans may change over time. For example, the FSA estimates a reduction in expenditure on schools education from 2009-10 as financial capability becomes more embedded in the curriculum. It also hopes that the industry will be more willing to take on responsibility for delivering workplace seminars in future. It is important that the FSA, in consultation with its stakeholders, begins in good time to develop its strategic priorities and approach for financial capability beyond 2010-11.

5.32 Other than through funding of the FSA, financial services institutions have no obligation to spend any money on increasing consumer capability. Nevertheless, many firms do so through their corporate social responsibility budgets or through their advertising, marketing and customer relations activities. There is a risk that if the FSA delivers large-scale capability projects, it may deter some firms from their own activity – although there is some evidence that the FSA's programme is stimulating, rather than crowding out, firms' own projects.

5.33 The National Strategy for Financial Capability focuses on stimulating the demand side through increasingly capable consumers. To complement its work here the FSA could also set out its strategy for delivering the supply side of financial capability including the responsibilities of firms to respond to current levels of consumer financial capability through, for example, product innovation, provision of information and financial promotions.

5.34 As shown in Appendix 5c, improving financial capability is integral to the FSA's strategy for helping financial services consumers achieve a fair deal. Capability levels are closely connected to many other retail and consumer needs and priorities. For example, as set out in the Better Regulation Commission report *Risk, Responsibility and Regulation*, firms should produce information with a genuine desire to inform consumers with different levels of expertise and experience rather than simply to avoid litigation.¹⁴⁷ Financial capability is an important issue in some of the FSA's major retail regulation activities including:

- **the development of a more principles-based approach to Treating Customers Fairly** – aims to make senior management of financial services institutions take on greater responsibility for ensuring their firms pay due regard to the interests of customers and treat them fairly. The six consumer outcomes outlined by the FSA, including 'consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale' and 'consumer advice is suitable and reflects consumer needs, priorities and circumstances' are closely related to financial capability issues. Treating a customer fairly may mean different courses of action depending on levels of capability;

- **its Retail Distribution Review** – aims to identify and address the root causes of problems in the retail investment market. It will look at the sustainability of the sector, the impact of incentives, professionalism and reputation, consumer access to financial products and services; and regulatory barriers and enablers. These factors all impact on the capability and confidence of consumers in dealing with the financial services markets;
- **its regulation of Financial Promotions** – the FSA regulates financial promotions to ensure they are 'clear, fair and not misleading'. An important factor for the FSA to consider in its regulation of financial promotions is the degree to which firms should take into account, and not take advantage of, low consumer levels of financial capability.

5.35 In some of the FSA's material, such as *Treating Customers Fairly – towards fairer outcomes for consumers*, financial capability is a key theme and findings from the baseline survey are used throughout the publication.¹⁴⁸ However, in other areas such as investment disclosure research, financial capability appears to be less of a factor. The National Audit Office survey of FSA supervisory staff showed that 39 per cent rarely or never discuss the financial capability of consumers in discussions with supervised firms. The FSA is aware of the need to raise the internal profile of financial capability issues to ensure it is embedded across the organisation and not confined to the activities of one department.