

Ofgem: Allocation of voluntary redress payments in the context of enforcement cases

Response from the Money Advice Service
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1. About us

- 1.1. The Money Advice Service (MAS) is a UK-wide, independent service set up by government to improve people's financial well-being. Our free and impartial money advice is available online, and by phone or web-chat.
- 1.2. Our core statutory objectives are set out in the Financial Services Act 2010. In 2012 we were also given responsibilities under statute to improve the availability, quality and consistency of debt advice across the UK. We are paid for by a statutory levy on the financial services industry, raised through the Financial Conduct Authority.
- 1.3. As the statutory body for financial capability, MAS has led the work with organisations across all sectors – financial, third sector, government and regulators to develop The Financial Capability Strategy for the UK. This 10-year strategy aims to improve financial capability, giving people the ability, motivation and opportunity to make the most of their money.
- 1.4. On 16 March 2016, the Government announced its intention to replace the Money Advice Service with a new money guidance and financial capability organisation, which is not expected to take over before April 2018.

2. Executive summary

- 2.1. Levels of financial capability in the UK are low. Low financial capability prevents people from making the most of their money and limits consumers' ability to actively participate in markets. We know that consumers with lower levels of financial capability are less likely to have done anything to check if they are getting the best deal on their energy supply in the last 12 months.¹ Around eight million people – one in six UK adults – are living with problem debt. We know that debt advice works but currently, only one in five people with financial difficulties seek advice.²
- 2.2. We welcome that Ofgem is considering how it can maximise the long-term consumer benefit from its approach to allocating voluntary redress payments. We consider that using voluntary redress payments to increase financial capability would benefit both consumers and the energy sector through increased competition and improving consumers' ability to manage their money, avoid debt, and seek advice if they are in financial difficulty.
- 2.3. However, currently the evidence of what works to improve financial capability is limited. The Money Advice Service co-ordinates the UK Financial Capability Strategy which is focused on testing, evaluating and sharing learning on the impact of a range of approaches to increasing financial capability so we can improve the sector's understanding of what works and ensure that resources can be deployed as effectively as possible.
- 2.4. To be confident that projects deliver benefits for consumers and are value for money, we recommend Ofgem consider how the projects funded will grow the sector's understanding of what types of intervention have the most impact. Ofgem should seek to fund either projects that have been proven to work or, at a smaller scale, innovative new projects that will be evaluated and can later be scaled up if proven to work. Evaluating the impact of the projects Ofgem funds will ensure they have access to information that will enable them to learn and adapt their approach over time so they can maximise their impact and the benefits they deliver for consumers.

¹ Money Advice Service (2015) UK Financial Capability Survey

<http://www.fincap.org.uk/financial-capability-survey>

² Money Advice Service (2015) A Picture of Over-Indebtedness

<https://www.moneyadviceservice.org.uk/en/corporate/a-picture-of-over-indebtedness>

- 2.5. As the statutory body for financial capability and the organisation responsible for co-ordinating debt advice in the UK, we have a deep understanding of the financial capability and debt landscape and evidence base. We already allocate a significant proportion of our budget to funding others to deliver financial capability and debt advice services. Working with the financial capability sector, we have developed a set of evaluation principles (IMPACT Principles) and an Evaluation Toolkit which includes financial capability outcomes frameworks to help organisations evaluate their impact on financial capability. These tools are available on the UK Financial Capability website.³
- 2.6. We would welcome the opportunity to assist Ofgem with the allocation of voluntary redress payments. We can envisage a variety of ways we could work together including:
- Requiring bidders to sign up to the Financial Capability IMPACT Principles – these principles have been developed to encourage organisations across sectors to publicly commit to building the evidence base and ensuring that robust evidence is at the heart of everything they do. They require organisations to adopt the approaches promoted in the Evaluation Toolkit (including alignment with the financial capability Outcomes Frameworks) and to share the results of their evaluation on the Financial Capability Evidence Hub.
 - Supporting Ofgem, or the organisation appointed to administer the fund, to allocate payments – this is a role we already perform for other organisations. It would involve us sharing our expertise of the evidence base and gaps in provision to help identify where to direct investment for the greatest consumer benefit.
 - We could discuss the possibility of the Money Advice Service directly allocating the funds on behalf of Ofgem.

3. Introduction

- 3.1. Levels of financial capability – people’s ability, motivation and opportunity to make the most of their money – in the UK are low:⁴
- 19 million people don’t have an approach to budgeting that they feel works.
 - One in five adults cannot correctly read the balance on a bank statement.
 - Nearly half of adults agree that there are things they can do that will influence their own financial situation.
 - Around eight million people have problems with debt and of those fewer than one in five is seeking help.
 - One in three do not discuss money openly with anyone.
 - Around one in eight people agree that they are too busy to sort out their finances.
- 3.2. Low financial capability prevents people from making the most of their money, for example we know that people with lower levels of skills and knowledge and people who lack confidence making decisions about products and services are less likely to have done anything to check if they are getting the best deal on their energy supply in the last 12 months.⁵ While many people are taking control of their finances and putting something aside for a rainy day when they can, there are still too many people at risk of falling into serious

³ The UK Financial Capability Strategy Evaluation Toolkit
<http://www.fincap.org.uk/evaluation-toolkit-homepage>

⁴ Money Advice Service (2015) UK Financial Capability Survey
<http://www.fincap.org.uk/financial-capability-survey>

⁵ Ibid.

difficulties. Too many people in financial difficulties fail to access the help they need from the free debt advice sector. As a result, money is a constant source of worry and stress for a great many people.

- 3.3. The UK Financial Capability Strategy⁶ exists to bring together organisations interested in improving financial capability, so we have a common understanding of the issues, what we want to achieve, and how we'll get there. Central to the success of the Strategy is ensuring resources are deployed as effectively as possible. Because at the moment evidence of what works to improve financial capability is limited, the Strategy is focused on testing a range of approaches and conducting robust evaluation so we can really understand what works. In this way we can build an evidence base that will allow organisations that fund financial capability initiatives to maximise their impact by investing in approaches that are proven to work.
- 3.4. Since April 2012 we have been responsible for the co-ordination of debt advice across the UK. In this role we administer the allocation of the debt advice levy and we have developed a model of funding debt advice that improves the delivery of debt advice and is sustainable for the longer term. Our approach to debt advice is informed by the principle that debt advice should be provided through the most appropriate channel for the needs of the individual client and we are committed to evidence-based commissioning.
- 3.5. We welcome that Ofgem is considering how it can maximise the long-term consumer benefit from its approach to allocating redress payments so that it can find ways to deliver greater impact for more consumers. We see continued support from redress payments towards projects that seek to improve UK energy consumers' financial capability (so that they have the skills, knowledge, attitudes, motivation and access they need to ensure they are on the best deal for them, budget effectively and seek help and advice when they need it) and debt advice as essential to achieving this aim. Given our role co-ordinating the UK Financial Capability Strategy and commissioning financial capability and debt advice projects we would welcome the opportunity to work together to ensure that projects with a financial capability focus fill gaps in provision and grow the sector's understanding of what works so we can maximise impact and in turn consumer benefit from money spent.

4. Response

Question 1: Do you agree with our objectives for the allocation of voluntary redress? If not, please explain why.

- 4.1. We agree with the overall objective to "maximise long-term benefits for energy consumers by ensuring that funding is well targeted". The focus on long-term benefits and ensuring funding is well targeted is in line with the objectives of the UK Financial Capability Strategy.
- 4.2. Benefits for energy consumers might be maximised in a number of different ways. In addition to the provision of direct financial or energy efficiency support, consumers would benefit from initiatives that seek to increase consumers' financial capability. By this we mean projects that:
 - equip consumers with the skills and knowledge they need to manage their money effectively and interact with the energy market;
 - target the attitudes and mindsets that prevent consumers from managing their money well and getting the best deal – for example, restoring trust in the energy market and the confidence and motivation consumers need that taking action will result in a positive outcome; and
 - improve access to the tools, advice and guidance consumers need to manage their money and interact effectively with the energy market.

⁶ Financial Capability Strategy for the UK (2015)

<http://www.fincap.org.uk/>

- 4.3. It is important that the objectives for the allocation of voluntary redress are sufficiently broad to allow for a wide range of projects to be funded as this will maximise opportunities to learn which types of intervention have the most positive impact for consumers.

Question 2: Are there any additional objectives or criteria we should consider when making a decision on our forward approach to voluntary redress? Are there things our approach should definitely include or absolutely avoid?

- 4.4. To be confident that projects deliver benefits for consumers and are value for money, Ofgem should consider how projects that are funded through voluntary redress will grow the sector's understanding of what types of intervention have the most impact. Ofgem should seek to fund either projects that have been proven to work or, at a smaller scale, innovative new projects that can be evaluated and later scaled up if proven to work.
- 4.5. Our evidence base shows that people with higher financial capability are better at engaging with markets and managing their money. Financial capability helps people to avoid debt, where possible, and seek advice if they do fall into financial difficulty. However, there is a lack of robust impact evaluation of what works to improve financial capability and achieves the biggest positive impact on people's behaviour – and, crucially, to understand not just 'what works' but also why, where and for whom. Until we have a stronger evidence base we won't know what types of intervention will have the biggest positive impact for consumers. We have developed our suite of evaluation resources (IMPACT Principles, an Evaluation Toolkit including frameworks for measuring outcomes for consumers, and an Evidence Hub) and launched our 'What Works Fund' to address this situation and support the building of a stronger evidence base. We recommend that Ofgem prioritise evidence and evaluation when allocating voluntary redress payments requiring that projects funded are either already proven to work or are new and innovative projects that will be evaluated to grow the evidence base.

Question 4: What are your views on the possible additional principles outlined in 'Option 1: Current process with enhanced principles'? Are there further additional principles that would help meet our objectives?

- 4.6. We support the additional principles outlined. In addition we recommend that Ofgem require organisations receiving funding to sign up to the UK Financial Capability Strategy IMPACT Principles.⁷
- 4.7. Important advances have been made in the last few years, both within the UK and internationally, in the understanding of the most effective ways to improve financial capability. Yet our shared understanding of people's financial behaviour and what drives it still lags significantly behind other behaviour-change fields, such as health. There is a lack of resource and skills amongst frontline providers to capture and interpret evaluation data to conduct robust impact evaluations with a majority of financial capability projects evaluating their success by looking at reach and the experience of participants with limited focus on the impact to the intervention. The UK Financial Capability Strategy places emphasis on filling gaps in the evidence base to improve the sector's common understanding of what works to improve financial capability. We have worked with organisations and experts across sectors to develop an evaluation toolkit that includes outcomes frameworks to help organisations evaluate the impact of what they do on fincap outcomes.
- 4.8. The Financial Capability Strategy IMPACT principles set out the high-level approach to evidence and evaluation that the Financial Capability Strategy wants to embed in all organisations at all levels. The principles have been developed to encourage organisations across sectors to publicly commit to building the evidence base and ensuring that robust evidence is at the heart of everything they do. They set an expectation that organisations

⁷ The UK Financial Capability Strategy IMPACT Principles
<http://www.fincap.org.uk/impact-principles>

will adopt the approaches promoted in the Evaluation Toolkit (including alignment with the financial capability Outcomes Frameworks) and share the results of their evaluation on the Financial Capability Evidence Hub. This ensures:

- **Projects funded use and grow the evidence base and fill gaps in provision.** Consulting the evidence base (via the UK Financial Capability Strategy and Evidence Hub)⁸ will ensure that projects funded fill gaps and replicate approaches that have already been proven to work or are pilots of new innovative approaches that will be evaluated. It will allow both projects funded and other projects being delivered by the sector to adapt and improve their delivery based on evidence of what works.
 - **Consistent evaluation of projects.** Proportionate evaluation of projects using the Money Advice Service Evaluation Toolkit⁹ allows consistency in the way the sector measures its impact and will enable stronger conclusions to be made about the most effective means of improving people's financial capability.
 - **Learning is shared.** Projects would be required to share their findings about what has worked well and less well with the wider financial capability sector through the Financial Capability Evidence Hub. Sharing learning in this way allows the evidence base to be debated, discussed and better understood – allowing smarter allocation of resources in the future.
- 4.9. Further information about the IMPACT principles, and the tools the Money Advice Service has developed to support organisations to evaluate the impact of what they do on individuals' financial capability, is available at: http://www.fincap.org.uk/understanding_what_works
- 4.10. We note that Ofgem is considering a requirement that the number of charitable recipients should be proportionate to the size of the penalty. We agree with the principle of increasing diversity of recipients to maximize consumer benefits as it will allow the impact of variety of projects to be assessed. As an alternative, it could consider – in cases where it is proposed to spend a significant proportion of a payment on a large project – requiring a proportion of a fund to be made available to smaller-scale 'proof of concept' projects that seek to evaluate the impact of an innovative new intervention. Where these small projects are shown to be promising they could be future candidates for larger amounts of funding to evaluate them at scale in the future.

Question 5: What are your views on 'Option 2: Responsibility given to a third party with appropriate expertise'? Are there any advantages, disadvantages, risks or costs relating to this option that we should consider?

- 4.11. We would support the appointment of a third party to run an open bidding process, assess applications against guiding principles and make recommendations about redress allocation.
- 4.12. As the statutory body for financial capability and organisation responsible for co-ordinating debt advice in the UK we have a deep understanding of the financial capability landscape and evidence base and already allocate a significant proportion of our budget to funding others to deliver financial capability and debt advice services. On 16 March 2016, the Government announced its intention to replace the Money Advice Service with a new money guidance and financial capability organisation, which is not expected to take over before April 2018. The new money guidance body will be responsible for commissioning money guidance, financial capability support and debt advice.

⁸ The UK Financial Capability Evidence Hub
http://www.fincap.org.uk/users/sign_in

⁹ The UK Financial Capability Strategy Evaluation Toolkit
<http://www.fincap.org.uk/evaluation-toolkit-homepage>

4.13. We would welcome further discussion with Ofgem regarding how MAS or the new money guidance body could assist Ofgem to manage the allocation of voluntary redress to projects that seek to improve financial capability. As a minimum, we can assist Ofgem to think through the evidence, evaluation and impact measurement aspects of the chosen approach.

Question 11: What are your views on the idea of using part of voluntary redress payments to support specific schemes? What are the advantages, disadvantages risks or costs relating to this idea? What existing schemes could be considered under this approach?

4.14. We would support part of voluntary redress payments being used to support specific schemes at scale where there is sufficient evidence that they have real impact. Where existing schemes are funded, we would recommend that a proportion of funds is also set aside to fund smaller pilots of new projects. This will encourage innovation in approaches and grow the evidence base.

4.15. As discussed above, the Money Advice Service distributes a significant proportion of our budget to funding others to deliver financial capability and debt advice services. There may be opportunities for Ofgem to distribute voluntary redress to financial capability and debt advice projects via these mechanisms.

4.16. **The What Works Fund:** In 2016/17 we committed £7 million to fund and evaluate programmes and pilots across the UK, in order to deepen financial capability partners' collective understanding of what types of interventions will make a real difference to people's money management skills. The core aim of this funding will be to strengthen the evidence base, using consistent evaluation tools and outcomes measures, so that all organisations (including providers and funders) can benefit from a collective understanding of what's proven to work. Robust evaluation will be at the heart of this programme of work, and key insights and learnings from pilots or evaluation programmes will be disseminated across the sector.

4.17. To allocate this funding in 2016-17 we have set a series of 'What Works Questions' guided by the priorities already identified by the UK Financial Capability Strategy. If Ofgem were to allocate a proportion of voluntary redress payments to the fund it would contribute to growing the evidence base so that the sector better understands what works to improve financial capability and, in turn, outcomes for energy consumers. If projects taken forward through the What Works Fund are proven to work they could become candidates for future voluntary redress funding to operate at scale.

4.18. **Funding free debt advice:** The Money Advice Service is responsible for distributing the debt advice levy amongst providers of free debt advice and is the biggest funder of debt advice in the UK. Since 2012 our debt advice funding has helped more people year on year and with our partners we have reduced the per client cost of that advice.

4.19. We know that the debt advice we fund works. People get out of debt more quickly and are more likely to be resilient to future income shocks if they have had advice – so we need to ensure that people are able to access the services that are available through the most appropriate channel. Independent evaluation of debt advice funded by the Money Advice Service in England and Wales shows that 88% of clients who received face-to-face debt advice from our partners in 2013, went on to take a positive action such as making reduced payments to creditors, or setting up a household budget to address their debt situation. As a result, 76% reduced or cleared at least some of their debts within three to six months of receiving advice. Six per cent were able to pay off their debts in full.

4.20. In 2015/16, energy suppliers made voluntary contributions to the debt advice levy. As Ofgem will be aware, there is a debate as to whether utility companies should continue to contribute to the funding of free debt advice alongside financial services firms. Notwithstanding this, MAS would be pleased to distribute any voluntary redress payments that Ofgem wished to be allocated to the free debt advice sector.

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