



Department
for Work &
Pensions

GUY OPPERMAN MP
Minister for Pensions
And Financial Inclusion

31st January 2018

Dear Colleague,

I am writing to send my thanks for your contributions during the Second Reading of the Financial Guidance and Claims Bill. As promised, I am writing to provide more detail on issues Honourable Members raised during the debate.

Part 1 of the Bill—the Single Financial Guidance Body

Strategic function

I agree with Honourable Members that it is of real importance that the body reaches out to people who are in need of financial guidance or debt advice. That is why the body has a range of objectives designed to focus its efforts on: enabling people to make informed financial decisions; supporting services in areas where they are lacking; and, ensuring services are available to those most in need. It will be a key task for the body to engage people with their finances. As part of its strategic function, the body will be required to work with industry, charities, central and local government, and the devolved authorities to promote and increase the take up of financial guidance and debt advice in a targeted and value for money way.

Pensions guidance

Honourable Members were right to highlight the importance of pensions guidance at all stages in people's lives. The success of the Automatic Enrolment has seen nearly 9.2 million workers automatically enrolled into a pension, and the new body will play a key role in helping these and other members of the public to make effective financial decisions in relation to their pensions. The body will build on the best elements of the existing services – this will include the excellent pensions information and guidance services provided by TPAS, which is available to people of all ages.

I agree that it is of real importance that younger people engage with their pensions, and it will be a key task for the body to ensure that it engages younger users with their finances. We expect the body to link up with industry, charities, central and local government, and the devolved authorities to promote its services in a targeted and value for money way.

Honourable members also enquired about how pension withdrawals were being used. FCA consumer research shows that, of the people taking full cash withdrawals, the majority (52%) subsequently re-invest the money – putting it into savings or bank accounts or investing it in property or equities. Many of the remainder use it to pay off debts – with only a quarter spending the money on other items.

These full cash withdrawals have typically been small pots (59% of those under £10,000; 88% of those under £30,000) and those withdrawing have, on average, four other sources of income for retirement, with these pots largely not the main source of income intended for retirement. 94% of people making a full cash withdrawal had at least one other source of retirement income beyond the state pension. At present, a £10,000 pot is likely to provide for an annuity of £400 a year or £33 a month if a tax free lump sum of £2,500 has been taken, so is not likely to contribute the main part of a retirement income.

Transition

Ensuring that people are able to access the services offered by the existing organisations during the transition period is of paramount importance and they will continue to be able to do so during the transition process. I want the transition from the existing services to the new body to be as smooth as possible, minimising disruption to customers and maintaining services. My Department has established a programme for managing this process. This is governed by a Programme Board which includes senior representatives from DWP, HMT and the three existing service providers. Once the Chair and CEO of the new body are appointed, they will also join the Programme Board and

play a key role in ensuring a successful handover. I want to build on the wealth of skills and experience that staff in the existing services currently have. As part of the transition plans, we therefore anticipate that most of the existing staff in MAS, TPAS and Pension Wise will transfer into to the new body as part of a transfer scheme provided for in Schedule 2 of the Bill.

Delivery Channels

Honourable Members raised concerns over why the Bill does not specify particular delivery channels for the body. The Government does not want to specify how the body should deliver its functions. It considers that the body itself will be best placed to design its own service delivery, and to refine its approach over time with reference to evidence of what works best for people using the service. Given the range of demographics and needs the body will serve, it will need to provide information and guidance via a range of appropriate delivery channels, including website information and tools, telephone and face to face but it will be for the body to decide the exact mix of delivery channels.

Long term savings/efficiencies

As the Government's response to the consultation on a single financial guidance body stated: "By rationalising the provision of services, the government expects there to be long term operational efficiencies that will mean more funding can be channelled to front line delivery of debt advice, money and pensions guidance." Bringing together the three existing services will generate efficiency savings by reducing back-office duplication through the co-location of staff and the consequent shared IT, telephony and other common services, not through any reduction in the service quality.

Duty of care

The Government recognises that there are different views on the merits of introducing a duty of care, and – as with any policy – wants to ensure that these are carefully considered and taken into account. This helps to avoid, or at least minimise, any unintended negative consequences of a policy change. The Government believes that the FCA, as the independent conduct regulator, is best placed to evaluate the merits of a duty of a care for financial services providers.

Debt levels

I am glad that Honourable Members raised questions concerning overall levels of household debt. However, I would argue that households' financial positions are stronger now than they were before the financial crisis. As I noted at Second Reading, total household debt is down as a proportion of income, falling from 160% in Q1 2008 to 138% in Q3 2017. More broadly, the independent Financial Policy Committee, set up by Government to assess and mitigate any potential financial stability risks, has put in place a number of policy measures to guard against the risks associated with a build-up in mortgage debt and growth in consumer credit.

Devolved debt advice

There were also questions raised about how the provision of debt advice will work in the devolved authorities. I believe that by leaving responsibility for commissioning debt advice to the devolved administrations, members of the public in their areas will be able to receive more holistic, well-joined up advice and guidance. It will be important that the body and the devolved authorities work closely together to ensure well-coordinated provision; indeed, the body's objectives require it to do this.

Financial Education

Financial education is extremely important at all stages of life and is key in helping people increase their financial capability. It is particularly important that children and young adults receive financial education to help them shape their financial habits later in life.

The Government's intention through the new body is to ensure children are supported at an early age on how to manage their finances, for example to learn the benefits of budgeting and saving. This is why the body will have financial education in its statutory functions, as a key part of the strategic function.

The body will have a coordinating role to match funders and providers of financial education projects and initiatives services aimed at children and will ensure that these are targeted where evidence has shown them to be more effective. This falls within the wider strategic financial capability work of the

body and should form a national strategy or part of a national strategy to enhance people's financial capability.

Breathing space

Turning to the Government's manifesto commitment to a six-week breathing space and statutory debt management plan, I want to be clear that we are absolutely committed to taking forward the policy as quickly and effectively as possible. A Call for Evidence on the scheme has recently closed, and officials are currently working hard on policy development. The Government will consult on a single policy design proposal in the summer, taking into account the expert views put forward during the Call for Evidence. Undertaking this rigorous process, and listening to expert views included in it, will allow the Government to design a scheme that benefits the many thousands of families of vulnerable families that a breathing space could help as much as possible.

Pensions cold calling

There were a number of questions surrounding pensions cold-calling. Tackling pensions cold calling is an extremely important issue, given the significant financial and emotional strain that scams resulting from such calls can place on individuals. The Government has repeatedly stated its strong commitment to ban this activity during this Bill. As the Secretary of State for Work and Pensions set out in her opening speech, government officials are currently looking at the Work and Pensions Select Committee's alternative amendment to speed up the implementation of a ban, to ensure that the Government can ban pensions cold-calling as quickly as possible.

Self-employed

Honourable Members asked whether the new body would provide financial guidance to self-employed people. As the Government indicated during the passage of the Bill through the Lords, the body will deliver services to any member of the public, including those that are self-employed. All three existing services provide information, guidance and signposting for the self-employed. MAS also provides funding for the Money Advice Trust's Business Debt Line which supports self-employed people with debt problems. The new body will continue to deliver these services. In addition, both HMRC and BEIS provide a range of online services to support and assist the self-employed. The BEIS business support helpline is also accessible via web chat, twitter, Facebook and YouTube.

Universal Credit

Honourable Members asked if I had considered the impact of UC on personal debt, and its implications for the resourcing of the body. The new body will provide financial guidance and information for people receiving welfare benefits including Universal Credit; for example, it will continue the good work of MAS, who currently provide a range of tools to help people budget, including a Personal Planner, Budgeting Support guidance and a Money Manager tool.

Part 2 of the Bill—claims management companies (CMCs)

Fee capping provisions

There were a number of queries about the nature of the CMC fee capping provisions in the Bill and I would like to provide some clarification on the Government's intentions. The main fee capping provision in clause 25 relates to the FCA, once the regulation of claims management companies has transferred. The clause gives the FCA a power to restrict fees for any regulated claims management activity. It also puts a duty on the FCA to restrict fees in relation to financial services claims management activity.

The duty imposed is restricted to financial services claims only for a number of reasons. To begin with, evidence points to fees in relation to financial services claims being a significantly bigger issue than in other CMC sectors. In 2015/16, 95% of consumer complaints about CMCs related to financial services claims; only 2% were related to personal injury. In addition, CMCs manage claims in different ways. In the financial services claims sector, CMCs tend to represent clients in making a claim and charge them directly for this service. However, CMCs dealing with personal injury claims typically focus on marketing activities and refer clients to lawyers.

As well as the clause 25 power and duty for the FCA, clauses 26 to 28 provide for interim fee capping provisions in relation to payment protection insurance (PPI) claims from two months after Royal Assent until the FCA implements its own cap. This will ensure that consumers are protected in relation to the most prevalent type of financial services claims management activity, particularly in the run up to the PPI claims deadline in August 2019.

You will also be aware of new clauses have been tabled to ensure that fees are restricted for legal services providers as well as CMCs, to ensure consumers

using claims management services are protected, regardless of whether they use a CMC or legal service firm.

Fit and proper person test

During Second Reading debate the argument was made for there to be a 'fit and proper persons' test for those working in claims management companies. The FCA will develop an appropriate, proportionate regulatory regime for CMCs in line with the remit given to it by Government and Parliament. It will set out clear rules which it will consult on in due course. The FCA is a well-established regulator, and the Government is confident it is capable of taking swift and effective action where widespread consumer detriment exists.

Firms at fault should pay

Honourable Members raised a question about whether firms at fault should be required to pay for CMC costs for PPI claims. This could incentivise firms to be more proactive in offering compensation and dealing with consumer complaints; however, this would be an indirect way of trying to do this. I am concerned such measures could lead to an increase in speculative and unmeritorious claims, which would be to the detriment of consumers and to industry by adding waste into the redress systems. However, I can assure you that the FCA is already taking direct action to ensure that firms do not make it difficult for consumers to claim compensation in relation to PPI claims and, by September last year, firms were upholding around 80% of claims. I also think it is important to note that consumers do not need to use CMCs to make a claim and can go directly to the relevant firm and subsequently the Financial Ombudsman Service for free.

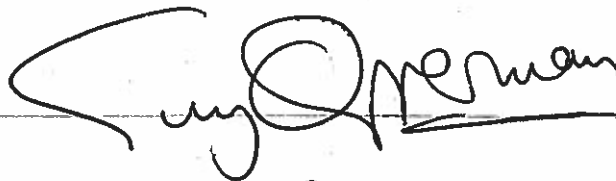
CMC cold calling

As a number of members pointed out, the Government committed in the House of Lords to exploring a ban on cold calling and to bringing forward an amendment that would restrict cold calls made by claims management companies. As you will have seen, the Government has now tabled such an amendment, to be debated at Committee. The amendment bans cold calls made for the purposes of direct marketing in relation to claims management services, except where the person called has given prior consent to receiving such calls.

Thank you again for raising these important points during the Bill's Second Reading. I hope that this letter provides you with reassurance and I will place a copy in the House Library.

This letter is a supplement to the letter I sent you yesterday outlining the key government amendments. I am happy to discuss any of these matters before committee if needs be.

Yours ever,

A handwritten signature in black ink, appearing to read 'Guy Opperman', written in a cursive style.

Guy Opperman

Minister for Pensions and Financial Inclusion