

Executive summary

1. There is a general consensus that the United Kingdom faces a problem of financial literacy. Academic reports, government initiatives, private and voluntary sector ventures have all acknowledged the need for consumers to be better educated and informed on financial matters.
2. The experience of Citizens Advice Bureaux (CABx) Service supports this need for improved financial literacy. CAB clients have seen dramatic changes in the financial services market over the past twenty-five years. From teenage years through to deathbed, people now have a bewildering number of financial choices to make and responsibilities to exercise if they are to benefit fully from these changes. Financial literacy is no longer a desirable trait that consumers should be encouraged in. It is an essential requirement to play an informed role as a consumer in today's 21st century market.
3. Recent years have seen a variety of initiatives to improve financial literacy. Government has been very active, particularly the Department of Education and Skills. The Financial Services Authority has also fronted or supported a wide range of activities. The introduction of financial education within the National Curriculum has led to the establishment of a bank of information and resources for teachers of young people. In October 2001 the Department for Trade and Industry launched a major initiative to help consumers become more confident (Confident Consumers).
4. Many CABx have also started working to promote financial literacy. As of September 2001, over sixty CABx were engaged in specific projects to improve the financial literacy of individuals and groups within their community. Appendix 1 of this report summarises those initiatives.
5. CAB evidence demonstrates just how important it is to maintain this drive to improve financial literacy. Our evidence shows how a financially illiterate consumer:
 - finds it difficult to identify the financial service or product that best meets their current and future needs, lifestyle, and aspirations;
 - falls victim to abusive practices from financial service companies and their agents;
 - responds to financial difficulties in a way that results in even greater problems;
 - is unconfident and unsure about how best to access and evaluate independent financial advice;

- is unable to take full advantage of the payments available within the tax and benefits systems to 'make work pay' and support those unable to work.
6. Much of the work undertaken to date has emphasised the link between inadequate education, low income, and consequent poor financial literacy. The debate has therefore tended to concentrate on the needs of poorly educated, low-income groups and the interaction between social exclusion and financial literacy.
 7. This report argues that the problem of financial literacy encompasses a wider range of issues than simply basic skills. Consumers require additional skills, information, and access to impartial advice if they are to be informed and confident participants in the wide ranging UK personal finance sector.
 8. The report also argues that the financial literacy target is continually moving. Consumers who are financially literate today may not be so tomorrow.
 9. The recommendations made by the CAB Service fall into three areas:
 - Improvements in consumer policy and regulation;
 - Improvements in the provision of consumer information and advice;
 - Identification of best practice in the delivery of local initiatives on financial literacy.
 10. The report's main recommendation is a call for a national strategy to join up and co-ordinate the initiatives to improve financial literacy. This strategy should straddle the work of government and the public, private, and voluntary sectors; identify and promote best practice; ensure good coverage and sustainable initiatives; and promote an approach to improving financial literacy which is not confined to consumers with basic skills or debts.
 11. To complement the national strategy, the report recommends the 'financial literacy proofing' of all government policy relating to consumer and financial services, welfare benefits and tax credits, and administration of personal taxation. The financial literacy implications of all new policy should be identified. The implementation of the policy should then explicitly address the need to ensure that consumers have sufficient knowledge and skills to take best advantage of new products and services and responsibilities.
 12. The report also discusses the need for better access to genuinely impartial and trustworthy financial and consumer advice.

13. A number of recommendations are made for specific changes in practice and regulation in the financial services industry covering, amongst others, consumer credit providers, insurance companies, and banking services. A list of all recommendations is provided in appendix 2.

1. Introduction

- 1.1 In October 2000, a CAB in the Midlands reported evidence of a client who had sought advice. The CAB client had a low income and was struggling to manage her finances. Amongst other problems the CAB identified:
- rent arrears as a result of inadequately completed housing benefit forms;
 - benefit overpayments because of incorrectly completed application forms;
 - court action on a credit debt because the client had purchased goods from a home shopping catalogue not realising that this was an expensive way to buy;
 - delay in paying gas arrears because the client did not have a bank account and the gas company would not accept the client's preferred method of postal orders;
 - a high milk bill because the client did not know that it would be cheaper to buy milk in their regular supermarket shop;
 - a worrying series of letters regarding debts because the client was unable to negotiate or explain the financial position by telephone or letter.
- 1.2 In July 2000, a CAB in South Wales reported a case of a client who wanted to buy a new Mercedes car. The cost was £35,000 and the client had more than sufficient savings to pay in cash. However, the car salesman persuaded the client to buy the car through a credit agreement and leave the savings intact. In reality, the interest charges on the finance agreement far exceed the interest received on the client's savings. The result is that the client is significantly worse off by using credit to buy the car.
- 1.3 These two cases provide evidence of two very different consumers who have a common characteristic. In each case the inadequate financial literacy skills of the consumer has combined with a lack of consumer information and advice to result in an outcome that is to the detriment of the individual concerned.
- 1.4 This report outlines the views and experience of the CAB Service on the challenge of improving consumers' financial literacy. The report illustrates how consumers are put at a disadvantage because of a lack of confidence, experience, and understanding when dealing with personal finance matters. We also show how some financial service providers are able to profit from consumers' lack of confidence and inexperience, and how both the private and public sectors sometimes act in ways that perpetuate financial illiteracy.
- 1.5 The report begins with an overview of recent policy developments relating to financial literacy. Chapter three reports CAB evidence on the consumer

detriment caused by financial illiteracy. Chapter four identifies the key aspects to tackling the problem of financial literacy. The last three chapters contain the recommendations of the CAB Service on tackling the problem of financial literacy. Chapter five discusses recommendations on policy and regulation issues; chapter six discusses recommendations relating to information and advice; and chapter seven discusses the lesson learnt by the CAB Service on what makes financial literacy initiatives succeed. Finally, we illustrate how CABx in England and Wales are responding in practical ways to the need for greater local financial literacy.

- 1.6 This report uses evidence provided by 731 CABx in England and Wales during the period April 2000 to March 2001

2. Policy context

- 2.1 Recent years have seen greatly increased interest in the subject of financial literacy. Government, politicians from all major parties, the financial services industry, consumer advice groups, and academic researchers have all supported the need for new initiatives.
- 2.2 The experience of the CAB Service is that there is a real need for improved financial literacy. There have been dramatic changes in the financial services market over the past twenty-five years. From teenage years through to deathbed, consumers now have a bewildering number of financial choices to make and responsibilities to exercise if they are to benefit fully from these changes. Financial literacy is no longer a desirable trait that consumers should be encouraged in, it is an essential requirement to play an informed consumer role today.
- 2.3 The social and economic factors that have influenced the heightened requirement for financial literacy include the following:
- a vastly extended range of consumer credit products as a consequence of financial deregulation, industry innovation, and consumer take-up;
 - successive governments have encouraged consumers to take greater individual responsibility for personal pension and insurance provision;
 - increasing consumer willingness to use credit and debt to finance current consumption;
 - an extended range and choice of mortgage products as increased competition amongst lenders has combined with the growth in home ownership and extension of right to buy;
 - the development and extension of the second charge mortgage market;
 - more 'middle' income consumers needing to consider the effects of inheritance tax to reflect increased property prices;
 - the introduction of choice into the consumer utilities sector;
 - increased graduate debt following the introduction of student loans;
 - a more complex interaction between the social security and income tax systems;
 - increased demand for travel insurance products as an ancillary requirement to foreign travel;
 - higher demand for residential care reflecting increased life expectancy
 - introduction of telephone and internet banking;
 - taxpayers being required to take a far more active role in the calculation of tax liability following self-assessment;
 - the development of e-commerce.

- 2.4 There is little dispute that there is a pressing need to improve levels of basic literacy and numeracy within the United Kingdom. Analysis by the Organisation for Economic Co-operation and Development in March 2001 showed that Britain has one of the lowest levels of adult literacy in the industrialised world. The Moser report¹ estimated that one adult in five in the UK is not functionally literate with far more - between 30% and 50% - having problems with numeracy.
- 2.5 Recent Government initiatives have begun to promote financial literacy. At the most fundamental level, the recommendations of the Moser report¹ have led to an emphasis on basic numeracy and literacy skills within the 'Skills for Life' national strategy. This strategy attracts a high political priority. Public expenditure of £1.5bn is intended to reduce the overall number of adults with weak literacy and numeracy skills by 750,000 within three years. At the same time, financial education has been included within the Personal, Social and Health Education element of the National Curriculum from September 2000
- 2.6 The Department of Education and Skills (DfES) is very active in working to improve levels of literacy and numeracy. Changes to the National Curriculum will mean that all students learn about personal finance from the age of five onwards whilst new initiatives on adult learning are being co-ordinated by the Adult Basic Skills Strategy Unit.
- 2.7 In 2000, David Blunkett, the then Secretary of State for Education and Employment established the Adult Financial Literacy Advisory Group (AdFLAG) to advise on ways to improve the financial literacy of the adult population. The AdFLAG report² made over 50 recommendations for short and medium term approaches to the issue.
- 2.8 The Government has often referred to the importance of confident and informed consumers to the United Kingdom economy. In October 2001, a government-led project resulted in the Basic Skills Agency and the Consumers' Association releasing the 'Confident Consumer' CD-ROM aimed at young adults with low levels of numeracy and literacy.
- 2.9 In June 2001, HM Treasury and the Department of Trade and Industry set out the Government's strategy for enhancing enterprise and productivity within the United Kingdom³. The strategy includes the need to improve consumer functional literacy to ensure a workforce with the necessary skills to assist enterprise and economic growth.

¹ Improving Literacy and Numeracy: A fresh start (1998)

² Adult Financial Literacy Advisory Group Report to The Secretary of State for Education and Employment (December 2000)

³ Productivity in the UK: Enterprise and the Productivity Challenge. HM Treasury and Department of Trade and Industry (June 2001)

- 2.10 Other relevant government initiatives have focussed on improving consumer information and protection. In 2000, HM Treasury instituted a review of the Banking Service Consumer Codes. The same year, the Department of Trade and Industry (DTI) established a Task Force on tackling Overindebtedness. Both initiatives subsequently produced helpful recommendations that we refer to in later chapters. In July 2001, the DTI issued a consultation document proposing a 'major review' of the 1974 Consumer Credit Act. All three initiatives offer the opportunity to introduce changes that will better protect consumers who have weak financial literacy skills.
- 2.11 The Government has shown a further commitment to improving financial literacy in the remit of the Financial Services Authority. Two of the four main aims within the remit are concerned with protecting and informing consumers. The Financial Services Authority has been active in pursuing its remit, with initiatives ranging from the publishing of an introductory booklet, *You and Your Money*, through to the compilation of comparative tables that we refer to else where in this report.
- 2.12 The current commitment of the Government to improving financial skills therefore seems beyond doubt. The CAB Service very much welcomes this commitment. We hope that the recommendations in this report will assist in translating the commitment into practical benefits for consumers.
- 2.13 Various individual organisations have also taken on a leading role in working to improve financial literacy. For example, the Personal & Finance Education Group provides a wide range of information and resources for teachers of young people. Some banks - notably NatWest/Royal Bank of Scotland - provide a range of learning and teaching materials. In 1998, a report commissioned by the Financial Services Authority⁴ identified forty-five different organisations as being active in, or offering materials or experience in financial education. This did not include those organisations involved only in the field of credit and debt.
- 2.14 As at September 2001, over 60 Citizens Advice Bureaux were found to be currently working within the community to help improve the financial literacy of local people. We report on this work in more detail in appendix 1.
- 2.15 There is clearly a great deal of work currently being undertaken in the public, private and voluntary sectors aimed at improving financial literacy and developing more confident consumers. However, two questions arise:
- Will these initiatives succeed in fully addressing the problem of financial literacy?

⁴ A guide to the provision of financial services education for consumers – FSA (March 1998)

- How will the range of initiatives make best use of lessons on what works and scarce resources?

2.16 The emphasis on work to improve financial literacy means that there inevitably will be duplication of effort and gaps. One challenge for those working in the field will be co-ordination of the various initiatives where appropriate. In addition, many initiatives are one-offs. A co-ordinated lasting and sustainable programme may be more effective in the long term.

3. Consumer detriment and financial illiteracy

3.1 Evidence from the CAB Service is that the lack of financial literacy puts consumers at a disadvantage in many ways. Our evidence highlights four particular problem areas. A financially illiterate consumer:

- finds it difficult to identify the financial service or product that best meets their current and future needs, lifestyle, and aspirations;
- falls victim to abusive practices from financial service companies and their agents;
- responds to financial difficulties in a way that results in even greater problems;
- is unconfident and unsure about how best to access and evaluate independent financial advice.

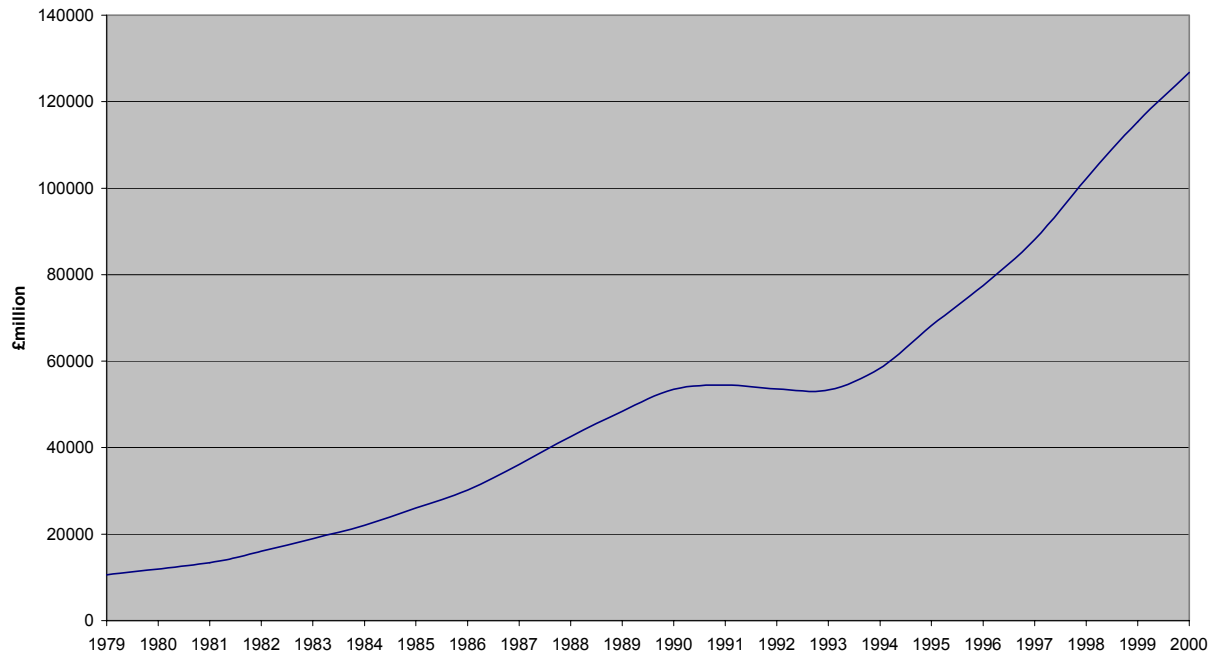
3.2 In this chapter we describe some of the evidence received from Citizens Advice Bureaux on the detriment caused to consumers by the lack of financial literacy. The evidence we cite covers only a limited range of the issues reported by CABx. We have focused on the following key areas where the lack of effective skills can cause problems for consumers:

- consumer credit
- insurance
- pensions
- utilities
- debt
- social security and tax credits

Financial literacy and the choice of consumer credit agreements

3.3 Perhaps the most noticeable feature of the increased importance of the financial literacy is in the development of the consumer credit sector. The amount of outstanding non-mortgage consumer credit in 1979 was £10,564 million. As at June 2001, this figure had increased to £131,883 million, an increase of 1248 per cent. The following table illustrates the growth.

Outstanding consumer credit 1979 - 2000



- 3.4 The evidence of the CABx is increasingly pointing to the lack of financial literacy as an important factor in consumers experiencing difficulties with consumer credit. This manifests itself mainly in choosing of credit products and the relationship between consumer credit and debt.
- 3.5 The complexity of the consumer credit market poses major difficulties for consumers choosing between different products. Making the optimum choice requires a full knowledge and good understanding of the different products available and the financial literacy skills to distinguish between the products. CAB evidence is that consumers are not always fully informed, nor do they always have adequate financial literacy skills to identify the best deal. They also lack confidence in challenging selling techniques. Consequently, they enter into credit agreements that represent very poor value. The following examples are typical:

A CAB in London reports a client who bought a car on hire purchase. The cost of the car was £5,750 plus her old car as deposit. The client told the CAB that she was rushed in to signing the credit agreement and was told that there was no need for her to read the small print. The agreement required her to pay £350 per month over 36 months at an interest rate of 49 per cent pa. The client defaulted on repayments and the car was repossessed. The subsequent sale of the car at auction realised £3,500 and so the client still owes £7,500.

A CAB in South Wales reports a client who purchased a conservatory with a related credit agreement. The client had sufficient money in her savings to cover the cost of the conservatory but was persuaded by the sales representative to take out the credit agreement instead. The initial cost of the conservatory was £9,000 but after paying £160 per month for the past eighteen months, the client still owes £8,294.

- 3.6 Part of the complexity of the consumer credit market is shown in the special offers designed to attract consumers. Often these offers can prove to be more 'special' to the finance company than they are to the consumer. Low interest credit cards, payment holidays on loan agreements, and interest free deals are just some of the offers that can hold traps for consumers in the small print.

A CAB in Hampshire reports a client who took out an interest free loan. The client made all regular payments as required under the credit agreement but the agreement was structured such that the payments the consumer had been advised to make did not clear the loan balance in full. The client was then required to pay interest on the entire loan, not just the amount outstanding at the end of the repayment period. With hindsight, the client felt that he was not given sufficient information to enable him to make an informed choice about the credit agreement.

A CAB in Sussex reports a client who bought a kitchen after a salesman visited his home. The client wanted to pay for the kitchen outright but was persuaded by the salesman that it would be better to keep the money in a savings account and take out a credit agreement to finance the purchase. The interest rate on the credit agreement was 21.9 per cent per annum.

- 3.7 Of course, to a credit provider, the commitment of a consumer to an agreement that could have been obtained at a lower cost elsewhere represents a considerable achievement. So long as the loan repayments are maintained the credit provider will make a healthy profit from the agreement. It is arguable therefore that it is not in the commercial interest of the higher cost creditor that an individual borrower should be sufficiently well informed to be able to identify alternative agreements that would represent better value. Similarly, financial services companies can take advantage of financial illiteracy by offering product "innovation" that seems to offer advantages for consumers but actually only serves to increase the profitability of a credit product.

A CAB in London reports a loan advertisement from a major high street bank. The advertisement promised a two month deferred period between the granting of the loan and the first monthly repayment from

the client. The CAB comments that it is difficult to see this as anything other than a moneymaking technique for the bank. If the financial situation of a borrower were such that they could not afford payments during the first two months, then presumably the bank would not want to lend money in the first place. However, deferring payments for two months will simply mean that the total amount of interest repayable by the borrower will increase and the profitability of the loan to the bank will increase.

- 3.8 There are many other examples of popular high street credit agreements that any financially literate consumer would avoid. Some storecards, for example, charge a rate of interest in excess of 30 per cent per annum. The vast majority of consumers accepted for such a credit facility would be able to access an overdraft, loan, or credit card facility at a much lower rate of interest. It therefore makes no sense for consumers to take any form of extended credit on high interest credit cards. Yet, research by Mintel shows that there were 20 million storecards in the United Kingdom in 2000⁵. We have been unable to obtain figures of the number of storecard holders who do not clear their account in full every month and thus pay the high interest charges. However, the Credit Card Research Group estimate that 38% of all credit card holders carry over a balance from one month to the next.
- 3.9 The choice of bank or finance company credit card is another example where basic literacy and numeracy skills are not by themselves sufficient to enable consumers to make an informed choice. This is not a trivial matter for consumers. By the end of 2000, there were 48 million credit cards in issue with annual expenditure totalling £84 billion⁶. The 'wrong' choice of credit card can mean a consumer paying out far more than necessary on interest and other charges.
- 3.10 A recent development in the credit card sector has been the reduction in the amount required on the monthly minimum payment combined with the offer of occasional 'payment holidays' where no contribution is required from the borrower. The consequences of these two factors result in significantly larger total payments by borrowers, as the following example illustrates.

Assume a borrower has a credit card with a balance of £2,000 and is charged interest of 18 per cent per annum.

If the minimum monthly payment level is 5 per cent of the outstanding debt (or £10 if this is higher than the 5 per cent figure) then repayment of the £2,000 debt will take 88 months or 7.3 years. Interest charges payable by the credit card holder will amount to £811.

⁵ Credit and Debit Cards, Mintel (August 2001)

⁶ Annual Report, Credit Card Research Group (2000)

Reducing the minimum payment level to 3 per cent (with a lower level of £10) means repayment of the £2,000 lengthens to 165 months or 13.8 years. Interest charges increase to £1,799.

Adding in a once yearly payment holiday to a 3 per cent minimum payment (with a lower level of £10) lengthens repayment of the debt to 196 months or 16.3 years. Interest charges now total £2,174.

- 3.11 The complexity of the UK consumer credit sector is such that consumers with perfectly adequate or even advanced literacy and numeracy skills are not always able to make fully informed decisions in their choice of credit agreements. Notwithstanding the Governments intentions to tackle extortionate credit and early settlement regulations, on-going product innovation and increased competition in the consumer credit sector will increase this complexity. It will continue to get more difficult for consumers to identify the optimum product to meet their needs. A complete approach to financial literacy will require that consumers can access better information to help them choose and transfer between products, and keep their skills up to date.

Financial literacy and the choice of insurance

- 3.12 Recent years have seen increased emphasis in public policy on the need for consumers to protect themselves against the effects of unemployment and sickness. The Government has been keen to promote the take up of insurance as a way of reducing the claim on the public purse. At the same time, product innovation and development has increased the range of insurance products available to consumers with products such as critical illness insurance and payment protection insurance being heavily promoted.
- 3.13 Insurances that protect against the financial effects of unemployment or sickness can be worthwhile and, in some cases essential. However, these products are not appropriate for all consumers. Indeed, the evidence of CABx is that at times they are hardly worth the paper they are written on.

A CAB in Wales reports a client who has a mail order catalogue under which he has been sold 'Super Payment Protection Insurance'. This covers the client in case of unemployment. Given that the client has not worked for thirty years, it seems somewhat unlikely that this insurance will ever come in to force.

A CAB in Buckinghamshire reports a high street bank who made a loan of £7,000 over five years to a 67 year old woman. The client also paid £1,455 for payment protection insurance. With interest charges,

the total cost of the insurance protection was £2,115. Close examination of the insurance policy by the CAB revealed that the insurance only protected the client for life, disability, and hospitalisation cover for two years and one month from the start of the loan.

A CAB in Hertfordshire reports a client sold a personal loan protection plan by a major high street bank. The insurance policy conditions specifically list the client's occupation as one that is excluded from cover. The client's occupation was, of course, known to the bank and was confirmed on the loan application form.

- 3.14 In many cases, CABx report cases of clients taking out insurances with little or no idea of the cover provided by the insurance.

A CAB in Berkshire reports a client who borrowed £1,000 from a major financial services company. The client also paid a £50 'acceptance fee', £291 for 'optional payment protection insurance', and a further £245 for 'healthcare insurance'. The total credit facility of £1,586 is charged at 3.5 per cent per month, equivalent to 56.5 per cent APR. The CAB comment that the client was unsure of exactly what the 'healthcare' cover was and how it differed from the 'payment protection insurance'.

A CAB in Lancashire reports a single 26-year-old man who has taken out a loan of £500. The credit agreement included a further £65 'acceptance fee' and he has also been sold a payment protection policy costing £99. There is then a further charge of £120 for 'Familycare' insurance. The client has no idea what this covers him for and, presumably, a single man with no family would be unlikely to claim on the insurance. The rate of interest on the total loan of £784 is equivalent to an APR of 90.6 per cent.

- 3.15 Consumer credit providers see dual advantages in consumers taking out payment protection insurance; not only does it help prevent delinquent accounts but it also provides commission bonuses in the selling of the insurance product. But, in many cases reported by CABx, it is difficult to resist the conclusion that the selling of the insurance has more to do with the desire of the salesperson to earn commission than the intention of helping the customer obtain good value and peace of mind.

A CAB in Devon and Cornwall reports a low-income client who was telephoned at 9.30 p.m. to ask whether she wanted to purchase payment protection insurance for her bank debit card. The client said that she was interested but wanted to see written information before committing herself. Ten days later, the premium for the insurance had

been taken from the client's account. A complaint to the bank produced the response that it would take two weeks for the premium to be refunded to the account and that perhaps an overdraft could be arranged in the meantime to fund the client's interim spending.

A CAB in Yorkshire reports a 63-year-old widow who was having difficulties in meeting repayments on two loans with her bank. She visited the bank to discuss her problems and the bank official suggested a new loan to consolidate the existing borrowing. The client says that she was also 'strongly advised' to take out the additional payment protection insurance. The loan amount was for £2971 with a further £521 for the insurance. She has now received a letter from the insurance company advising her that she will no longer be covered by the insurance once she reaches the age of 65.

- 3.16 CAB have even reported cases where the enthusiasm of the salesperson to sell payment protection insurance has resulted in fraudulent practices.

A CAB in North Wales reports a client who entered into a hire purchase agreement but who was clear that he did not want to take the optional payment protection plan. Three different sales staff tried to persuade him to change his mind but the client insisted on signing the agreement without taking the insurance. When the client received the copy of the agreement an 'x' had been inserted in the box accepting the insurance causing an additional payment of £46.56. A complaint was made to Trading Standards.

A CAB in Derbyshire reports a car hire purchase agreement where the acceptance box for the optional payment protection insurance was pre-printed with an 'X'. The cost of the insurance added over £2300 to the cost of the credit agreement.

- 3.17 Another example of insurance cover which consumers come under pressure to purchase covers against the malfunction of a purchased item. This insurance is normally called extended warranty insurance.
- 3.18 Recent changes to the Sale of Goods Act means that the need for extended warranty insurances should have reduced. The 1995 Amendment to the Act prescribes that goods must be of satisfactory quality. One factor to be taken into account in determining this is the durability of the goods. Failure of the retailer to supply goods that would meet a reasonable person's expectations of satisfactory quality because, for example, they are faulty constitutes a breach of contract which should be put right.
- 3.19 Whether an extended warranty represents good value for money will depend on what it offers, over and above consumers' statutory rights, and

which eventualities it covers that might prove more expensive than the cost of the warranty.

- 3.20 The danger is that consumers can be sold extended warranties which do not offer more than a consumer is already entitled to from the retailer. Where an extended warranty offers an improvement on the statutory rights, consumers need to be fully aware of their existing rights and confident enough not to be sold the insurance product because of high-pressure sales tactics. There is a need to ask questions and compare the statutory entitlement with the extended warranty cover and to evaluate the difference in respect of personal need.
- 3.21 Even where the consumer cannot seek the assistance of the Sale of Goods Act, a survey in April 2000 by the Consumers Association⁷ showed that the cost of repair is likely to be less than the cost of extended warranty insurance. Consumers who want the peace of mind of an immediate callout to repair or replace the item might want to pay extra for protection insurance but financially literate consumers would look at whether an extended warranty represented good value for money. CABx evidence suggests that consumers are not sufficiently knowledgeable and/or confident about their consumer rights to evaluate extended warranties.

A CAB client in South Wales purchased three items from an electrical store. She paid for extended warranty insurance to cover all three items. The small print of the insurance contract shows that only one of the items is covered.

A CAB in South London reports a client buying a telephone for £99 from a well known electrical retailer. The client was also sold extended warranty insurance at an additional cost of £25. One month after purchase the telephone stopped working and the client returned to the store. He was told that the store no longer stocked the telephone and that he could have a similar replacement model but that this would invalidate his original warranty. Other stores within the same retail group still stocked the client's original model of telephone but it was not possible for items to be transferred between stores.

A CAB client in Hertfordshire purchased a freezer and paid £150 for a four year extended warranty insurance. The freezer was faulty and the store agreed to replace the item but told that the client that she would be obliged to pay an additional £150 to take out a new warranty insurance.

- 3.22 As with payment protection insurances, we have evidence of unacceptable practice in the sale of extended warranties.

⁷ *Paying for peace of mind, Which? Magazine (April 2000)*

A CAB in Yorkshire reports a client buying a washing machine and a cooker from a well known retailer. The client refused the extended warranty but was subsequently asked to sign a form that she thought was connected with her purchases. The form was actually a direct debit mandate. When the client tried to cancel the insurance contract, the representative of the insurance company threatened legal action. After the intervention of the CAB, the insurance company agreed to cancel the policy and has refused the premiums taken from the client's account under the direct debit mandate.

A CAB in Worcestershire reports a client who bought a computer together with a three year extended warranty which included 'on-site' repairs and service. Within three months of purchase the computer failed and the client asked for an engineer to visit her home in accordance with the warranty terms. The company have told her that on-site repairs were discontinued for health and safety reasons two months before the client bought her computer.

- 3.23 On the other hand, consumers who are financially literate can see the problems associated with extended warranty insurance.

A CAB in Cheshire reports a client who took out a store extended warranty insurance on a fridge freezer. Shortly afterwards he was contacted by the manufacturer of the fridge freezer inviting him to take out a similar insurance direct with them. The client refused the offer and contacted the CAB because he was concerned that other consumers would have been misled into paying twice for the same cover.

- 3.24 The Office of Fair Trading (OFT) has reported on investigations into extended warranties in 1994 and 1996. The OFT began another investigation in October 2001. In 1996, the British Retail Consortium (BRC) attempted to assist consumers by producing a code of practice guidelines for extended warranties on electrical goods. However, the initial mystery shopping exercise commissioned by the OFT as part of the 2001 investigation has already confirmed the continuing problem of consumer detriment since very few stores visited had the BRC code on display.

- 3.25 A further recent development in the financial services sector has been the aggressive marketing of insurance through credit card providers. Again, we have many reports of practices that cause detriment to consumers such as the following case:

A CAB in Kent reports a client who received a telephone call from his credit card company asking if he wanted three months free health

care cover. The client agreed. At the end of the three months he noticed that payments were being taken from his credit card in respect of a health care insurance company. The client says that at no time did he agree to taking out a health care policy nor has he ever given his credit card details to the insurance company. The insurance company confirmed that they have received details of the credit card direct from the card company. They also advised that the insurance policy operates for a minimum period of two years and that no refund would be given for any cancellation during this initial period.

- 3.26 There is a further element to the relationship between financial literacy and insurance. In some cases, CABx have reported people cancelling insurance policies where they would have been better advised to maintain cover. For example:

A CAB in the West Midlands reports a client who was made redundant. As a way of reducing expenditure, the client cancelled his buildings insurance. The CAB comment that they are concerned that the growing number of debt cases where clients are cancelling buildings insurance could result in problems for those clients in the event of damage to their owner occupied property.

- 3.27 Improved financial literacy would enable consumers to better establish and evaluate their need for insurance protection. We are concerned that at present firms benefit from a considerable imbalance in consumer power. As a result, mis-selling and poor value products are commonly reported by CABx. Whilst we would expect that consumers with better knowledge and skills would refuse some insurances at the current costs, demand for basic insurances such as term life insurance and contents insurances could increase. We would certainly expect to see a reduction in the number of insurance policies terminated with no replacement cover put in place because of the financial difficulties of the policyholder.

Financial literacy and pensions

- 3.28 In recent years, successive governments have sought to encourage consumers to make adequate provision for their retirement income. Numerous legislative changes have been introduced since 1973 to further this aim⁸.
- 3.29 The introduction of stakeholder pensions in April 2001 was a further move by the Government to persuade consumers to make their own financial provision for retirement. Stakeholder pensions are aimed at those people

⁸ For example, the Social Security Act 1973, the Finance Act 1973, the Social Security Pensions Act 1975, the Health and Social Security Act 1984, Social Security Act 1985, Social Security Act 1986, Finance Act 1987, Social Security Act 1990, and the Pensions Act 1995.

on lower and middle incomes - a group that is well represented amongst CAB clients.

- 3.30 There has been only a low take up of stakeholder pensions in the first six months. Some commentators⁹ are already questioning whether the whole approach to pension provision will succeed in persuading consumers to make sufficient provision for retirement. If the following evidence reports are typical of the standard of advice and service that low and middle income consumers can expect from pension companies, it may not be that surprising that those consumers are not rushing to take up the new stakeholder products.

A CAB in Yorkshire reports a client who took out a personal pension in 1988. She was working on a casual basis and the adviser suggested that the pension payments were funded from her husband's wages. After years of paying in to the scheme the client received a cheque for £4,000 from the pension provider but with no letter or other explanation enclosed. On telephoning the pension company, the client was told that she is not entitled to any pension under the pension scheme and that the £4,000 represents a refund of her premiums.

A CAB in Worcestershire reports a client took out a private pension in 1985. On reaching the age of 65 he applied for regular payments under the pension but was told that the policy had a further ten years to run to maturity. He can opt to receive regular payments at this stage but will miss the bonuses that the policy has accrued. It appeared that when the client took out the pension, the information on payment at 'age 65' was given only as an example - it did not relate to his policy, which runs through to age 75.

A CAB in Hampshire reports a client who has been provided with options on future pension rights though a free standing additional voluntary contributions scheme to which he has contributed. The client is concerned because the monies he will receive under both options are much smaller than he was expecting. He has contacted the pension company but they have been unhelpful in providing an explanation. The CAB report that their own experience in contacting the company to seek clarification is that the company staff are 'unhelpful, uninformative, and abrupt'.

- 3.31 The provision that an individual makes for retirement is increasingly the most important long-term financial decision that any consumer has to make. The optimum choice of pension provision involves a complicated analysis of numerous factors including pension options, future plans, attitude to risk,

⁹ See, for example, A New Contract for Retirement, Institute for Public Policy Research (August 2001)

current and future earnings potential, likely changes in personal circumstances, and tax relief. It could even be argued that a totally informed decision would factor in likely changes affecting the viability of the State Retirement Pension and the future availability of means tested benefits to supplement the state pension.

- 3.32 The level of information required and the subsequent analysis means that even consumers with advanced literacy and numeracy skills are likely to require advice to enable them to choose a pension. Consumers with less advanced skills will certainly require a significant level of advice and support if they are to identify the best product for their needs.
- 3.33 Where a lack of financial literacy means that consumers do not have the skills and confidence to choose between pension products, it is imperative that they are able to access high quality independent advice. However, various studies¹⁰ have shown the lack of confidence that consumers have in the financial advice industry as a whole. The well-publicised mis-selling of pensions and other products has further dented consumer confidence. The result is one that CABs and clients find unsatisfactory.

A CAB in Devon reports a client who transferred his occupational pension rights to a personal pension on the advice of an Independent Financial Adviser (IFA). The company that provided the personal pension has accepted that the pension was missold and has offered compensation. The client wanted the advice of the CAB as to whether he should accept the offer. The CAB explained that they could not provide this advice because the Service is not licensed nor insured to provide financial advice of that kind and that the client should seek advice from an IFA. The client was unhappy with this suggestion given that it was an IFA that mis-sold him the personal pension in the first place.

A CAB in the West Midlands reports a client who has received a letter from her endowment insurance company. The company has informed the client that an internal review has concluded that she may have been sold an inappropriate policy. The client wanted advice from the CAB as to whether she should retain the policy or accept the alternative of a refund of premiums paid to date plus a small ex-gratia payment. The CAB comment that they are unable to advise and that it seems unsatisfactory to the client to simply suggest that she identifies and contacts an IFA.

A CAB in Rutland reports a client who was advised to reject his occupational pension scheme in favour of a personal equity plan. The

¹⁰ See, for example, Better Informed Consumers – FSA 2000, Money Education Begins At Home – Ewels and Knights, Keele University, 2000

insurance company for whom the adviser worked had offered a refund of contributions plus interest but no other compensation because they have no records of the sales calls made to the client.

- 3.34 In early 2001, consumers became aware of the problems faced by Equitable Life and the consequent effect on those holding pensions with that company. The following evidence report is typical of the subsequent enquiries made of CAB.

A CAB in Derbyshire reports an Equitable Life pension holder approaching retirement age. The client has been told she will lose 10% of her pension fund if she transfers to another provider but is worried that she will lose more money if she stays with Equitable Life. She is confused by all the press comment and simply wants clear guidance as to her options and advice she can trust as to the best thing for her to do. She does not trust independent financial advisers.

Financial literacy and utilities

- 3.35 The Office of Gas and Electricity Markets (OFGEM) estimate that about 14 million customers have switched fuel suppliers since competition was introduced into the gas and electricity markets in 1997 and 1998 respectively. The financial benefits to consumers of switching to a less expensive fuel supplier can be significant, with possible yearly savings of over £100¹¹.
- 3.36 It is clearly in the consumer interest that the option of transferring fuel supplier should be available to all consumers who could benefit from such a transfer in the form of lower prices and/or higher standards of service. However, there is a very large amount of CAB evidence which shows how the availability of increased choice in this market has led to consumers being pressurised into changing suppliers without any proper advice on whether they would, in fact, be better off.

A CAB in Essex reports a client who changed electricity supplier and subsequently received an estimated bill for more than three times the amount that she paid in the same quarter year period to her previous supplier.

A CAB in Hampshire reports a client who opened her door to a gas meter reader who subsequently asked whether the client wanted to save money by having her gas and electricity supplied by the same firm. The client assumed that this would mean that her existing gas supplier would take over her electricity supply but later received notification that a new company would take over the supply of both

¹¹ News release PN80 – OFGEM (October 2001)

fuels. Her existing gas and electricity suppliers have asked her to pay her accounts immediately which she is unable to do.

- 3.37 The introduction of competition into the energy market has changed the landscape for consumers dramatically. In parallel the Government has worked to influence the industry to produce a range of other options aimed at low income and 'fuel poor' households, defined as those households who need to spend more than 10 per cent of their income on heating their homes to an adequate standard of warmth. As indicated in the Government's UK Fuel Poverty Strategy a host of different initiatives aimed at tackling fuel poverty are being developed which will offer a range of grants, services and products to fuel poor households. To get the most out of these, very welcome initiatives, consumers will need access to high quality information and advice about the range of options and choices available to them. And consumers who are not financially literate need more support and help to guide them through the maze that the energy supply industry has become.

An elderly Asian couple from London, on a basic state pension, came into their CAB because they needed to have a gas boiler repaired and had nowhere near the funds to cover the cost. They were unaware until approaching the CAB that a grant (then HEES) may have been available to them.

Financial literacy and debt

- 3.38 The increase in outstanding consumer borrowing has been matched by significantly increased numbers of consumers seeking help and advice on repayment problems. In 1980, the number of debt enquiries to CABx was such that it was not considered necessary to maintain separate statistics on the subject. In 2000/2001, the CAB Service answered nearly 700,000 enquiries on consumer debt and credit.
- 3.39 One of the most noticeable features of recent evidence reported by CABx has been the increase in debt levels of those seeking advice. In some cases, the amount of outstanding unsecured debt exceeds the yearly household income.

A CAB in Cambridgeshire reports a married couple who are owner-occupiers with a joint income of nearly £2500 per month. Between them, the couple have 34 unsecured debts totalling £103,584. Some of the loans are for consumer goods but most have been taken out to repay other debts.

A CAB in Norfolk reports a retired man in receipt of means tested benefits. He has eleven credit cards including three from the same

bank. The total balance outstanding on the cards is £34,000 out of an overall combined credit limit of over £46,000

A CAB in the West Midlands reports a married woman on below average wage. She has taken out several loans and each time has provided full information about her circumstances to the loan company. She now owes £34,000. Her husband is only aware of £5,000 of this debt.

3.40 Previous NACAB reports have identified low or reduced income as the major factor in the financial problems of those seeking advice from CABx. This is still the case in 2001. However, recent years have seen a steady increase in the number of cases where the financial difficulties have not been income related but instead have been primarily caused by overcommitment of the borrower. Put another way, an increasing number of debt enquiries to CABx have their origins in consumers simply borrowing beyond their ability to repay. In addition, CABx are reporting a significant number of cases where only a small reduction in income or increase in expenditure leads to repayment problems. We report more on this development in a forthcoming evidence report on debt.

3.41 The CAB Service has no evidence that consumers deliberately put themselves in a position of financial difficulty. Nobody who takes out a new credit agreement does so in the expectation that six months later the consequences will be sleepless nights and family arguments. Yet, CAB evidence shows that too often consumers find themselves in exactly this position. We believe that financial illiteracy is a strong factor giving rise to overcommitment.

3.42 It is clear from evidence reported by CABx that consumers are particularly badly informed and financially illiterate when it comes to resolving a debt problem. All too often, attempts to solve the problem actually make matters worse.

A CAB in Staffordshire reported that their clients, housing association tenants, had accrued £400 rent arrears. The clients arranged to buy their house with a mortgage from a non-status mortgage lender after seeking advice from a local broker who had recently leafleted the whole estate. The clients ended up borrowing over £28,000 as they thought this would solve the problem of repaying the £400 rent arrears. Since they bought the house, the husband has stopped work due to ill health and they now face possession action, as they cannot pay the mortgage.

A CAB in Yorkshire reports a couple who have been borrowing to pay off other credit. The level of borrowing is now such that the

repayments on credit are equal to their monthly income of over £1650 per month with total debts exceeding £66,000.

- 3.43 A lack of financial literacy can mean that consumers are heavily reliant on third party advice and information in resolving their problems. This makes them easy prey for companies that wish to take advantage.

A CAB in Surrey reports a client who had an existing debt problem. The client was targeted by a company who advised that they would be able to obtain additional credit for her but she would have to pay £50 to cover 'administrative' costs. After she had paid this, the company informed her that nothing could be progressed unless she paid a further £15 to repair her credit rating.

A CAB in Worcestershire reports a client who answered a national newspaper advertisement placed by a company guaranteeing loans to those without bank accounts or with a poor credit rating. The client paid the required £50 administration fee. After six weeks, the company informed him that they could not provide a loan but a further payment of £15 would allow the company to further investigate his credit rating. The client wrote to the company asking for his £50 back. The company responded by advising that, although they did refund fees to unsuccessful applicants, he did not qualify. If he wished to discuss the matter further he needed to telephone a premium cost telephone line at a cost of £1 per minute.

A CAB in Bedfordshire reports a client who responded to an advertisement for a 'guaranteed loan'. This involved them in paying an application fee of £39. The loan company promised a response within ten working days. However, four weeks after the application the clients had heard nothing. Telephone calls to the company only succeeded in reaching an answerphone that did not accept messages. The CAB comments that the local Trading Standards department have been informed but do not hold out much hope of the clients receiving a refund.

- 3.44 The low level of financial literacy in the UK makes it vital that consumers are able to access high quality independent advice to prevent an initial debt problem from escalating into something worse. It is worrying therefore that we receive reports from CAB of very poor debt advice from advisers who clients might reasonably expect to be able to trust.

A CAB in Cleveland reports a client who had been a customer of the same bank for over 30 years. The client had an overdraft, loan, and an endowment mortgage with the bank. The client also had a separate car loan. In 1998 the client was contacted by the new bank

manager who offered advice on the client's financial position. The manager advised cashing in the existing endowment policy to clear the credit cards, taking out a new bank loan to clear the existing bank loan, and increasing the mortgage to cover the car loan. A new endowment insurance was also advised to repay the increased mortgage capital.

The client in the above case came to the CAB after realising that the rate of interest payable on the mortgage is higher than that payable under the old mortgage and that he will be seven years into retirement before the new mortgage will be repaid. In September 2000, he also received a letter advising that there was a projected shortfall of £10,000 on his new endowment policy.

A CAB in Suffolk reports how a client had approached her bank to explain that she was finding it impossible to maintain payments on her personal loan. The response of the bank was to offer her a new loan. The CAB comment that whilst a new loan to repay existing borrowing may be an option for debt problems, it did not seem to be a viable option in this particular case as the client was still going to be unable to meet the new payments.

A CAB Nottinghamshire reports a single mother who was in receipt of Income Support. She was having financial difficulties and was particularly concerned about her credit card debts of £7,000. She went to see her bank and was advised to take out a consolidation loan for the £7,000. She was also told that she would be 'better off' accepting the loan protection insurance offered with the loan. She has now realised that the insurance mainly covers only those in employment and she can nowhere near afford the repayments on the new loan.

3.45 Any comprehensive approach to financial literacy must take account of the growing debt load of UK consumers. A comprehensive approach should also acknowledge that a significant proportion of consumers are ill equipped to identify when increasing debt exposure becomes a problem and the steps that they should take to resolve that problem.

3.46 The July 2001 report of the Department of Trade and Industry Overindebtedness Taskforce is very helpful in seeking to address some of these issues. In addition to proposals for further research and changes in company practice the report identifies a need for greater emphasis to be placed on education as a longer-term means of addressing overindebtedness. The report also has some specific recommendations on financial literacy, particularly in the areas of consumer education and the information provided to consumers when taking out a credit agreement. The fact that membership of the Task Force comprised more credit industry

representatives than consumer representatives is possibly an indication of the level of agreement on the need to address the problems faced by overindebted consumers.

Financial literacy, social security benefits and tax credits

- 3.47 Low income consumers may often be entitled to additional income through means tested social security benefits. Low and middle income consumers may also receive additional income through tax credits. However, CAB evidence is that both the benefit and tax systems are complicated and intimidating to those lacking in financial literacy skills. And the interaction of the two systems can be almost impossible for some consumers to understand.
- 3.48 The complexity of benefits and the claiming process is one reason why millions of pounds worth of benefits go unclaimed by people on low incomes who are entitled to help from social security benefits each year. The Government estimates that Income Support valued at anything between £540 million and £1.35 billion goes unclaimed each year. £380 to £940 million in Jobseekers Allowance is not claimed by unemployed people entitled to this benefit. Housing Benefit and Council Tax benefit estimated at £610 to £1,280 million every year also does not reach tenants who would be entitled to help with their rent and/or council tax. The circumstances of the people seen by CABx are varied, but many of them face complex and difficult decisions concerning benefits, tax credits and work. They must consider the hours and earnings requirements of Working Families Tax Credit (WFTC), which offers support to families on a low income working at least 16 hours a week. They may have to arrange childcare if they also want to claim the childcare tax credit, which must be claimed at the same time as WFTC. They may also have to consider the effect a claim for WFTC might have on housing and council tax benefit.
- 3.49 There are a range of schemes designed to provide assistance with the costs and risks of getting back to work – jobfinders grants, extended payments of income support, housing benefit and council tax benefit. A person may perhaps also need to consider how part-time work below 16 hours could be combined with income-related benefits.
- 3.50 In our 1997 report, ‘Short Changed’, we illustrated the problems that those with poor literacy or numeracy skills can face in accessing social security benefits. We pressed for a commitment to better information for claimants and non-claimants on their rights and responsibilities under the benefits system. Since then the Government has altered the system to give more emphasis on in-work benefits for the lower paid with a specific change to tax credits in place of benefits. The CAB Service welcomes the extra benefits available to those in paid work. However, reports from CABx still

lead us to the conclusion that more needs to be done to ensure that all low income groups can claim the credits or benefits to which they are entitled.

- 3.51 The Government is piloting initiatives, known as ONE, which help and encourage all benefit claimants of working age to find work, or to claim their benefit entitlement if work is not an option. A new agency for people of working age, Jobcentre Plus, is also being rolled-out from October 2001, with a similar aim of providing more active support to get people into work.
- 3.52 The stated aim of Jobcentre Plus is to provide a work focus to the benefits system, and to give a “much better service”. The Government previously indicated that ONE would provide “individually-tailored advice to benefit claimants of working age, making best use of modern technology and tapping into the expertise, innovation and efficiency that both the private and voluntary sectors can offer.”
- 3.53 The CAB Service was enthusiastic about the development of personal advisers within a modernised service that was flexible, efficient and easy to use, because of the potential this model had for improving the quality of benefits service delivery as well as services for people moving into work. Our experience of ONE has been that many of the familiar basic errors in benefit advice have continued. For example

A CAB in East Anglia reports a client who was receiving means tested Jobseekers Allowance and full Council Tax Benefit. The client became sick and ONE assisted with a claim for Incapacity Benefit. The ONE adviser failed to advise the client to make a new claim for Council Tax Benefit given the cessation of Jobseekers Allowance, and also failed to identify that the client was entitled to a payment of Income Support in addition to Incapacity Benefit.

A CAB in East Anglia reports a client who started a full time job after a period of unemployment. She was advised by ONE that the calculation for Working Families’ Tax Credit when she re-applies after six months would be based on her usual salary alone and would disregard any overtime payments. Her employer advised that overtime payments would be taken into account. The client asked the CAB for confirmation of the correct advice and the bureau explained that the employer was correct. The bureau comments that ONE continue to give wrong advice on this issue.

- 3.54 People who have an urgent need for financial help may turn to the Social Fund for help. This requires some reasonably detailed knowledge of the system in order to make a successful claim. All too often, inadequate advice is available from the Benefits Agency about Social Fund help, even where it is apparent that the client might well be eligible for a payment. Very

often people do not know what form of help they should seek to apply for, and receive inadequate advice from an official source.

For example, a Buckinghamshire CAB advised a client who had been discharged from a Mental Health Unit to an unfurnished flat and required furniture and household items. He was given a Crisis Loan, which he would have to repay, but he was not told about applying for a Community Care Grant, which could have provided resettlement help.

In another example, a CAB in the South West assisted a man with cancer of the throat, who had to feed himself with warm food through a tube to his stomach, and urgently needed a cooker to heat his food. He was receiving Income Support and applied for a Crisis Loan, but was advised by the staff at the Benefits Agency to apply for a Budgeting Loan, which would be processed speedily. The local CAB thought he should have been advised to apply for a Community Care Grant.

- 3.55 CABx also report that people who claim Income Support are frequently told by the Benefits Agency that their claim is at the bottom of the pile and that it will be some weeks before their claim is decided and any benefit paid. In the interim they are advised that they should claim a crisis loan, and that although their claim may be refused, it could have the effect of speeding up their Income Support claim.
- 3.56 Disabled people face enormous complexity claiming benefits which exist to provide help with the extra costs of care and mobility that arise because of their disability. Attendance Allowance, payable to people aged 65 and over must be able to show that they require at least frequent attention from another person throughout the day in connection with bodily functions in order to qualify with help with care costs. There are special rules for different groups such as people in residential care or in hospital, or people receiving renal dialysis. Most CAB advisers would not advise anyone to claim Disability Living Allowance or Attendance Allowance without seeking advice such is the degree of complexity of the rules, and the level of knowledge required about the evidence necessary in order to make a successful claim. Attendance Allowance is regularly shown in local CAB take-up campaigns to be significantly under-claimed, to a greater extent even than the Minimum Income Guarantee for pensioners.
- 3.57 The complexity of the regulations and procedures around Housing Benefit also present claimants with financial literacy challenges. This is particularly the case if housing benefit only covers part of the rent due, leaving the claimant to make up the difference. The standard notification letters sent to claimants are often very difficult to interpret, even by a welfare benefits expert. A repeated complaint is that the one piece of information the letters

do not provide is a clear statement of how much the tenant should be paying towards the rent themselves. If benefit is paid direct to the landlord, the challenge for the client is then to calculate exactly how much rent they should be paying themselves, especially given that benefit is calculated on a weekly basis and the rent due may be calculated on a calendar month.

- 3.58 Where a Housing Benefit claimant is considering moving into work, they face particular challenges in calculating whether they will be better off in work. Many people will rely on CAB to help work this out. Calculations require assessment of Working Families Tax Credit entitlement where applicable, and how this will interact with and reduce entitlement to Housing Benefit. To this the additional costs of working, such as childcare, travel, work clothes and casual expenses must be added.
- 3.59 Once in work, challenges continue, as any change in income will affect housing benefit entitlement. Where people are on fluctuating incomes this can mean continually having to report changes to the housing benefit department and continually having benefit reassessed. As many departments have huge backlogs of work, benefit is likely to be reassessed weeks after the event, leaving the claimant continually facing over or under payments. This can wreak havoc with careful budgeting plans.
- 3.60 Another example of the way in which the benefits system perpetuates financial illiteracy is through the Direct Payments system. This provides a budgeting facility whereby an Income Support claimant can meet the costs of certain payments through weekly deductions from benefit payments. In our 1993 report, 'Make or Break' we explained the CAB evidence that Income Support claimants can lose track of their financial position because of inadequate information from the Department of Social Security on what payments are being deducted to meet which bills. We showed how some claimants were unaware of the amount of money they still owed on a particular account being paid via direct deductions. In 2001, we continue to receive reports from CABx on the same problem.

A CAB in Lincolnshire reports of a single parent in receipt of Income Support who sought advice on her financial position. She had significant rent and council tax arrears plus two smaller debts to door-to-door debt collectors. Multiple deductions were being made from the Income Support to repay a social fund loan, water arrears, and council tax arrears. The level of deductions was obviously causing the client some hardship. The CAB established that the amount deducted in respect of the water arrears had not only repaid the debt in full, but had put the client's account £235 in credit. When challenged by the CAB, the water company said that the responsibility for stopping payments rested with the Benefits Agency. The CAB comment that it would have been helpful to a debt client on very limited means if either

the Benefits Agency or the water company had provided information as soon as the debt was cleared.

Detriment caused by poor consumer literacy and numeracy

3.61 Many financial literacy initiatives aim to improve basic literacy and numeracy skills. CAB evidence confirms that there is a need for improvements in basic skills because of the detriment experienced by consumers with poor literacy and numeracy skills. Detriment is also apparent where consumers have disabilities that result in difficulties in reading. The evidence shows that such consumers:

- find it immensely difficult to identify appropriate financial services;
- can too easily be the victims of abusive practices from financial service companies;
- find it difficult to identify the welfare benefits and/or credits that would increase their income.

The following cases illustrate these problems:

A CAB in Hampshire reports of an elderly man who has Parkinson's disease. He tripped on an uneven paving stone and fell. Subsequently he contacted an accident advice company by telephone to enquire about possible compensation. A representative visited the client at home to obtain signed authority to access medical records. After chatting with the client for some time about his life time experiences, the representative asked the client to sign several documents, laying one on top of the other leaving only the signature box visible. The client was unaware that he was signing a credit agreement for nearly £1000 to pay for an insurance policy.

A CAB in Northumberland reports of a client with learning difficulties. She had taken out extended warranty insurance on a new washing machine and tumble dryer, which nearly doubled the cost of the goods. The client is unemployed and the CAB feel that the store should have informed the client that the extended warranty was a luxury that the client could have chosen to refuse.

A CAB in Surrey reports of an illiterate man married with two young children who took out a loan of over £12,000 with a high street bank. The loan application form stated income of £780 per month (including Incapacity Benefit) with rent expenditure of £222 per month and existing borrowing commitments of £317 per month. The CAB letter to the bank comments, 'on these figures it was clearly impossible that he could take on new loan repayments of £337 per month, even if this replaced some of the existing borrowing commitments. It seems to us

highly irresponsible of the person granting the loan to do so in these circumstances, especially knowing that our client could not read the paperwork he was being asked to sign. The £2,500 for the repayment protection insurance seems particularly inappropriate’.

A CAB in Leicestershire reports the case of a couple in their early twenties who have a very poor understanding of financial matters or the consequence of setting up a loan. The couple needed money to get married and approached a high street bank. They were provided with a loan of £13,500. The total to be repaid was £17,657.64 at a rate of £269 per month. However, the couple’s joint income was only £230 per week and their various other regular commitments meant that default on the loan was virtually inevitable.

A CAB in Hertfordshire reports the case of a 74 year old woman on a low income who took out a £3,000 loan in 1997 from a high street bank. The loan has since been rescheduled on three separate occasions, each time paying off the balance outstanding on the existing loan. Each time the woman has borrowed slightly more but has primarily used the new loan monies to repay off the previous loan. The overall effect has been that client has fallen deeper in to debt with very little benefit to her. The CAB comment that the client does not appear to have understood what was happening and has now moved in to sheltered accommodation.

- 3.62 The deregulation of the gas and electricity markets and may have offered benefits to consumers able to take advantage of cost savings. However, the identification of the best value supplier and the management of the transfer procedure poses major problems for those with poor literacy or numeracy skills or who have other difficulties in reading and writing.

A CAB in Hampshire reports of a partially sighted woman aged 88 who lives alone. She sought advice because she was concerned and bewildered about her fuel supply. She believed she received gas from one company and electricity from another company, and she knew that she paid £5 per week to both through payment books. However, she had received a demand for payment of £100 from her gas company but in respect of her electricity account. The CAB was able to confirm that the client’s original electricity account had been closed four months before the client contacted the CAB. However, the original electricity company had continued to accept the weekly payments of £5 and had even sent the client a new payment book two months after the account had been closed. The CAB comment,

‘There is no suggestion here that the client’s signature in the new electricity contract was fraudulently obtained, but it is typical of this

situation that clients - especially the elderly or vulnerable - change supplier without meaning to or wanting to. Further, the subsequent confusion whereby [the original electricity company] continued to take the client's money even though no longer supplying her is ridiculous and unhelpful to the point of negligence. We regularly see clients in similar situations.'

- 3.63 Poor literacy and numeracy skills tend to be linked with low income and/or reliance on means tested benefits. Lack of literacy or numeracy skills is likely to put an unemployed person at a disadvantage in a competitive job market and make it likely that they find it more difficult to find new work. Research by the Basic Skills Agency¹² has shown that time out of paid employment leads to a decline in numeracy and, to a lesser extent, reading skills.
- 3.64 The CAB Service has a long experience of advising people on lower incomes. Research conducted by MORI in 1999 showed that 35 per cent of CAB clients were from the unskilled working class (DE's)¹³. Evidence from these clients has featured in previous NACAB reports¹⁴ that have linked low income with problems in accessing financial services.
- 3.65 A common problem reported by CABx concerns the tactics used to target those on low incomes to take out inappropriate insurance products.

A CAB in County Durham reports of a 44 year old client in receipt of Income Support. He had been persuaded by an insurance salesman to pay £40 per month for a whole life funeral protection plan to cover both him and his wife. The CAB comment that, in the event of death, both the client and his wife would be eligible for help with funeral costs under the Social Fund. The couple are already in debt and cannot afford to maintain the payments of £40.

- 3.66 Other evidence reports show how vulnerable consumers can be taken in by marketing techniques that prey on the circumstances of low income consumers.

A CAB in Wales reports of a low income pensioner couple who responded to a newspaper advertisement for a free hearing aid. Once the husband had been tested for and fitted with the hearing aid the agent informed them that there would be a price to pay. The cost of the aid was £499, payable by an immediate deposit of £99 followed by eighteen monthly payments of £24.69 making a total cost of £543.50

¹² Use It or Lose It – Basic Skills Agency 1998

¹³ People's Panel. Report for NACAB (August 1999)

¹⁴ See, for example, Daylight Robbery (2000), and Short Changed (1997)

A CAB in Lancashire reports of a marketing technique used by one storecard company in the run up to Christmas. Customers received a letter enclosing a cheque made payable to them. The letter explained that the cheque was to help the customer meet the costs of Christmas and all the customer had to do was to sign the cheque and pay it into their bank account. Further explanation in the letter clarified that the cheque actually represented a cash advance on the storecard account which would attract a 'promotional' rate of interest of 19.9 per cent pa until the following February. At that time, any remaining balance on the cash advance would revert to the usual interest rate of nearly 30 per cent per annum. The CAB was shown the letter by a client whose daughter was a customer of the storecard company. The client was concerned that her daughter was unaware of the implications of cashing the cheque. The CAB comment that they understand the client's concern as their own experience suggests that 'vulnerable people may not fully understand that this is a loan'.

A CAB in London reports of a client who responded to an advertisement in his local paper which invited those in receipt of a low income to apply to be part of a loan club. The client sought further information and was told that he would save with the club for sixteen weeks, after which he would be eligible for a loan of up to twice the amount he had saved. The client saved a total of £320 and then paid an additional £35 to apply for a loan of £640. Subsequently he has heard nothing more from the loan club company and the CAB has had no success in contacting the company. The local Trading Standards department are investigating.

3.67 Other reports point to lending practices that will inevitably result in debt problems for the low income consumer.

A CAB in Oxfordshire reports of a mother who sought advice concerning her 17 year old son. The mother had been concerned at her son's ability to manage his finances and had specifically asked the two high street banks with whom he had an account not to allow him a credit card whilst under the age of 18. Nevertheless, both banks did provide a credit card facility and the son is consequently in debt. Legal action is threatened to recover the debt.

A CAB in the Northumberland reports of a client unable to work and in receipt of social security benefits due to an accident. Her bank has provided her with a loan and overdraft facility. The benefit payments are made directly in to the client's bank account - and are completely taken up by the repayments on the loan.

3.68 The NACAB report 'Daylight Robbery' (December 2000) outlined the failure of the existing extortionate credit legislation to adequately protect consumers against abuse. The report highlighted how low income groups appear to be particularly likely to be offered credit agreements that carry onerous and unfair terms and conditions. We continue to receive evidence reports of people on low income taking on credit agreements that, in the view of the CAB Service, should be open to attack under more effective consumer credit legislation.

A CAB in Surrey reports of a single parent in receipt of Income Support who took out a secured loan in 1988. The annual percentage rate of interest on the loan is 36.1 per cent.

A CAB in London reports of a client who took out a secured loan of £5,800. The interest rate is 36.29 per cent per annum. The client has so far repaid over £20,000 and wants to repay the loan in full. The lender has quoted a redemption figure of £40,147

3.69 'Daylight Robbery' illustrated how the current legislation on extortionate credit is neither effective nor accessible to consumers. The current 'test' that determines whether a credit agreement is extortionate is heavily weighted in favour of lenders. Moreover, the test can only be invoked if a borrower is prepared to risk heavy legal costs in taking the initiative and making an application to the court.

3.70 In total, the report made twenty-five recommendations, many of which found broad support within the financial services industry. We are pleased to note that in July 2001 the Government indicated its intention to review the extortionate credit provisions as part of a wider review of the Consumer Credit Act 1974¹⁵.

3.71 Overwhelmingly CABx evidence points to significant consumer detriment arising debt due to low levels of financial literacy. Whilst some consumers' problems can be resolved by improved skills this is not an entire solution. An effective strategy must address practices of providers and regulation. These issues are considered further in chapters four, five and six.

¹⁵ Tackling loan sharks – and more! DTI (July 2001)

4. The key aspects to tackling the problem of financial literacy

- 4.1 To date, work on financial literacy has emphasised the link between inadequate education, low income, and consequent poor financial literacy. The debate has therefore tended to concentrate on the needs of poorly educated, low-income groups and the interaction between social exclusion and financial literacy.
- 4.2 CAB evidence illustrates how consumers are making ill-informed decisions on financial matters. However, in many cases, such decisions are not primarily caused by poor basic numeracy or literacy skill. Indeed, many CAB enquirers have well developed numeracy and literacy skills but remain unable to identify the optimum financial decision or strategy based on the information available to them. At other times, financial illiteracy is consolidated and perpetuated by the limited or poor quality information provided to consumers, poor advice, or high pressure sales tactics. The problem therefore encompasses more diverse issues than simply basic skills. Informed and confident consumers do need to acquire basic literacy and numeracy skills, this only represents a starting point to build on.
- 4.3 In the introduction to this report we have described how the past twenty five years have seen little short of a revolution in the UK financial services sector. The rapid pace of change and development has left even the most informed consumer struggling to keep up. Moreover, future innovation and competition within the financial services industry will ensure that even consumers who are fully informed this year will not necessarily be so next year. For example, developments such as the introduction of the Euro currency, e-commerce, and consequent increased cross border provision of financial services and consumer goods and services will inevitably present consumers with new challenges in getting the best deal.
- 4.4 Full financial literacy requires basic numeracy and literacy skills. It also requires the ability to understand payslips, to choose between types of mortgage, to determine whether a stakeholder pension represents the best option for long term savings, to choose between utility suppliers, to complete benefit and tax forms, and to determine whether borrowing is best undertaken through secured or unsecured facilities. It requires the ability to look ahead and take account of whether future interest rate changes make a fixed rate savings or borrowing product a better option than a variable rate alternative. It requires those watching over their new born baby to think through the financial consequences of parental death, those starting work to think of retirement, and those reaching retirement to consider the time when they may no longer be able to care for themselves.

- 4.5 It is also important to recognise that any approach to tackling the problem of financial literacy will be aiming to hit at a moving target. Consumers who are financially literate today may not be so next year. We have already referred to the future development of the personal finance sector. Other factors will also impact. For example, the initiatives to improve the financial skills of young people should mean that future school leavers have greater financial literacy skills than their predecessors do. But thereafter these consumers will need to keep pace with change to ensure they get the best deal in the market place.
- 4.6 A complex and rapidly changing financial services sector also requires adequate consumer protection which is capable of preventing abuse and consumer detriment whilst not preventing product innovation. An improvement in financial literacy will not, by itself, protect consumers from the abusive and consumer-detrimental sales and marketing practices that exist within the sector. Any comprehensive approach to the problem of financial literacy must therefore include provision for consumers to access high quality independent pre-sales advice and information. It must also provide for appropriate and effective regulation where necessary to secure the delivery of essential information and transparency within financial products.
- 4.7 CAB evidence also demonstrates that the problem of low levels of financial literacy is as much an issue for the public sector, in particular to ensure that people get all of the benefits and tax credits that they are entitled to, as it is for the private sector.
- 4.8 The CAB Service has conclusions and recommendations to make in three key areas that should be part of a strategy for tackling the problem of financial literacy as it exists in the United Kingdom in 2001:
- improvements in consumer policy and regulation;
 - improvements in the provision of consumer information and advice;
 - identification of best practice in the delivery of local initiatives on financial literacy.

These conclusions and recommendations are set out in Sections 5,6 and 7 of this report respectively.

5. Recommendations for policy and regulation

- 5.1 This chapter outlines our recommendations in the area of consumer policy and regulation

A national strategy

- 5.2 It is clear to the CAB Service that the importance of improving financial literacy will intensify over the next decade. Consumers at every level of income who are not financially literate stand to miss out on the opportunities offered by new developments or, worse still, be led into making choices that they do not understand and which do not represent a good deal.
- 5.3 There is currently an increasing range of financial literacy and consumer education initiatives undertaken by the Government, regulators, educators and the private and voluntary sectors. In this report we have referred to some of these, most notably the Government's three year £1.5 billion Skills for Life initiative launched in March 2001.
- 5.4 The report of the DTI led Overindebtedness Task Force summarised eleven major projects and initiatives being taken forward in England and Wales, Scotland and Northern Ireland. The Task Force called for a greater degree of knowledge about the needs for consumer financial education and identified the importance of promoting good practice. Their report called on the Financial Services Authority to take the lead in undertaking a 'mapping' exercise of current adult consumer financial education as it relates to money management. This should aim to establish a co-ordinating body with responsibility for developing policy and effective practice in adult consumer financial education, by the end of 2001.
- 5.5 The CAB Service welcomes the recommendations of the Overindebtedness Task Force and agrees that there is a significant need for high profile leadership and co-ordination of initiatives across the public and private sector over a significant period of time. The Financial Services Authority may be the most appropriate body to take the lead in this area, as has been identified by the Overindebtedness Task Force. However, it is likely that government action may be needed to bring this about.
- 5.6 The CAB Service recommends that the Government should ensure that a national strategy for improving financial literacy is developed. This should be a ten-year programme and bring together the various current and future initiatives within the public, private, and voluntary sectors with the overall goal to build consumer confidence and skills in relation to all personal finance matters including social security**

benefits, tax, consumer credit, savings, insurances and pensions. The strategy should:

- **Ensure that all consumers are provided with, or can easily obtain suitable information that allows them to choose between and manage their choice of financial products;**
- **Ensure that consumers are able to access high quality impartial advice on financial issues;**
- **Enhance education initiatives to improve literacy and numeracy skills;**
- **Ensure consumer are effectively protected against the abusive practices of the financial services sector;**
- **Measure and evaluate the success of financial literacy initiatives and promote best practice in this area.**

5.7 The importance of financial literacy is such that the national strategy should ensure that that all future policy changes that affect consumer access to personal finance should be assessed against how the changes enhance and promote consumer financial literacy.

5.8 To complement the national strategy, all government policy relating to consumer and financial services, welfare benefits and tax credits and other personal financial matters should be ‘financial literacy proofed’. The financial literacy implications of new policy should be identified and the implementation of the policy should explicitly address the need to ensure that consumers have sufficient knowledge and skills to take best advantage of new products and services.

Guidelines for basic banking services

5.9 Improving access to banking services is a core component of helping consumers to become more financially literate. This is a feature likely to become even more important in future years. The Government is promoting payment of benefits direct to a claimant’s bank account rather than by cashable girocheque. At the same time, employers are increasingly insisting that wages or salary credits for all employees are paid directly into a bank account. The result is that there are an increasing number of new low-income consumers who are joining the financial services market for the first time.

5.10 The CAB Service is not alone in reporting on the difficulties faced by some consumers in accessing banking and other financial services. Most notably, the report of Policy Action Team 14 to the Treasury in November 1999 concluded that around one and a half million low income households use no financial services. Research commissioned by the Financial Services

Authority has also illustrated the link between poor literacy and numeracy skills and the receptiveness to information on financial matters¹⁶.

- 5.11 One response to this problem of financial exclusion has been to promote 'basic' bank accounts. These accounts offer basic banking services such as a cashpoint card and the facility for salary and social security benefits to be paid directly into the account with standing orders and direct debits paid out. However, the accounts do not provide for overdraft or cheque guarantee card facilities and so there is no need for credit scoring and the possible rejection of the account applicant.
- 5.12 The CAB Service welcomes the provision of basic bank accounts and acknowledges that many banks have worked innovatively to publicise the provision and attract consumers previously without account facilities. The British Bankers Association estimate that 254,000 new basic accounts were opened during 2000, bringing the total number to around 3.3 million¹⁷.
- 5.13 One concern that we have with the uptake of basic bank accounts is that banks will take the opportunity over time to upgrade accounts to a conventional account with full banking facilities. In addition, there will be a temptation for banks to use the opening of a basic bank account as an opportunity over time to sell additional banking and other financial services. No doubt, some account holders will welcome the additional services and products as appropriate to meet their changed and developing banking needs. However, there is a clear danger of mis-selling.
- 5.14 Selling additional products to existing customers is a common business practice. However, those who take out basic bank accounts are amongst the most financially vulnerable. We expect banks to recognise this fact and exercise additional care and internal controls when targeting basic bank account holders with the offers of upgraded facilities or other products.
- 5.15 The CAB Service recommends that the British Bankers Association produce guidelines for its members on upgrading basic bank accounts and the sale of additional products to basic account customers.**

Regulation of consumer credit

- 5.16 In July 2001, the Department of Trade and Industry announced its intention to undertake a major review of the Consumer Credit Act 1974¹⁸. The same month, the DTI led Task Force on Tackling Overindebtedness reported on its findings.

¹⁶ Better Informed Consumers – FSA April 2000

¹⁷ Promoting Financial Inclusion: Second Annual Report– British Bankers Association. July 2001

¹⁸ Tackling loan sharks – and more. DTI (July 2001)

5.17 The CAB Service warmly welcomes the review of the Consumer Credit Act 1974 and the report of the Overindebtedness Task Force. There have been dramatic developments in consumer credit since 1974 and statutory regulation and consumer protection has failed to keep pace with these changes. CAB evidence is that consumers are too often bewildered and uncertain when it comes to choosing between credit agreements and, for many, there is a direct link into the problems caused by overindebtedness.

5.18 It is of vital importance that consumers fully understand the terms and conditions of consumer credit agreements and also have the financial literacy skills to identify the credit agreements that represent best value. The review of the Consumer Credit Act provides an opportunity to put financial literacy at the heart of regulation of the consumer credit sector.

5.19 The CAB Service recommends that the need to improve financial literacy forms an objective for the review of the Consumer Credit Act 1974. The Government should consider how consumer financial literacy will be improved as a result of the proposed changes to legislation and regulation in this area.

Insurance agreements

5.20 It could be argued that the lack of financial literacy means that payment protection insurance should be made mandatory on consumer credit agreements. This opinion seems to be gaining favour within the European Union in the prelude to the drafting of a new European directive on consumer credit.

5.21 The weight of evidence the CAB Service has on the detriment caused to UK consumers by inadequate, expensive, and mis-sold payment protection insurance is such that we would argue against the mandatory take-up of such insurance. If payment protection insurance is made mandatory then there must be far more stringent measures put in place that ensure such insurance represents good value for money and adequately protects consumers at times of sickness, unemployment, or other event that reduces income.

5.22 The CAB Service recommends that the Government argue against any European Union Policy initiative which would link the mandatory tie-in of payment protection insurance with the purchase of consumer financial products.

5.23 Our concern about the value of some payment protection insurance and the poor sales practices is such that we consider the government should consider the whole area of payment protection insurance in more detail.

We note that the report of the DTI Overindebtedness Task remarks that it is clear that some payment protection insurance has been sold to consumers who have failed to understand the product or appreciate that it is optional. More damaging is that it has been sold to consumers who do not satisfy the qualifying criteria. There is an arguable case that payment protection insurance should be sold entirely separately, rather than as an addition, to consumer credit agreements and we welcome the Task Force recommendation that the DTI should establish a working group to examine the issues. This could usefully be included within the review of the Consumer Credit Act 1974.

5.24 The CAB Service recommends that the Department of Trade and Industry, as part of the review of the Consumer Credit Act 1974, should consider whether it is in the consumer interest to decouple payment protection insurance from consumer credit agreements.

Protection against abusive practices of the financial services sector

- 5.25 Improving basic literacy and numeracy skills should obviously help consumers lacking in such skills to make a more informed choice in accessing financial services. However, this, by itself, will be insufficient. Measures will also be necessary to counter abuse within the financial services sector.
- 5.26 The activities of the financial service providers we evidence within this report run the complete range from possible over zealousness by a member of staff to complete fraud. Vulnerable consumers are often unable to identify a financial product that should be accompanied with a health (or wealth) warning. This is particularly the case in the consumer credit sector and is unacceptable in an economy and society where consumer credit is taking an increasingly important role. Increased education and information to consumers will not by itself overcome this problem and the consumer credit industry should be obliged to assist.
- 5.27 The consumer credit licensing system provides the potential to regulate the activities of consumer credit companies. However, the current regime is ineffective. The granting of a licence should provide some measure of protection to consumers. Our experience is that consumers may often regard the licence as a badge of protection against abusive practices. The reality is that a consumer credit licence is available to anyone who pays the licence fee and passes the most cursory of checks. There is no explicit check of a trader's competence in what is a complex area of trading practice. The Government has announced its intention to review the licensing system of the Consumer Credit Act and this is welcome. We believe that the agenda for this review should incorporate objectives for improving consumer financial literacy.

5.28 The CAB Service recommends that, as part of the changes the government is proposing to make to the consumer credit licensing system, all applicants for consumer credit licences that permit the sale of financial products and services are obliged to show how they would meet the needs of those with poor basic literacy and numeracy skills. Repeated abuse of vulnerable consumers should result in a 'fast track' revocation of a licence and effective penalties in the form of fines.

5.29 An additional area of consumer credit legislation purports to protect against extortionate credit agreements. Our report, Daylight Robbery (December 2000), recommended changes to the regulation of extortionate credit and we are pleased to note the Labour Party's 2001 General Election manifesto commitment to pursue reform in this area.

6. Recommendations for information and advice

- 6.1 This chapter outlines the recommendations of the CAB Service to improve financial literacy through the provision of better consumer information and advice.
- 6.2 The increased complexity and diversity of products available within the UK personal finance sector means that the provision of clearer and more meaningful pre-sale or point of sale information is necessary. This information should enable consumers to choose between products and then subsequently confirm whether the initial choice of product continues to represent the optimum choice.
- 6.3 Financial literacy also requires that consumers can access financial advice that can be trusted to be impartial and of high quality.

CAT standards

- 6.4 The Government has recently attempted to provide consumers with more help in choosing financial products through the introduction of the voluntary CAT (Charges Access and Terms) standards code. CAT standards are designed to allow consumers to identify straightforward financial products that represent a reasonable deal, The CAT code originally covered Individual Savings Accounts (ISAs), was subsequently extended to mortgages, and in early 2001, the Government proposed that CAT standards would be extended to include credit cards.
- 6.5 The development of CAT standards is welcome in providing consumers with the assurance that financial products meet minimum requirements. However, the CAT criteria need to be extended to other products and tightened to be of most benefit to consumers. In particular, the classification of whether a product meets CAT standards should be mandatory. It will be necessary to regularly review CAT criteria to take account of new developments in product development and marketing within the financial services sector.
- 6.6 Some commentators have argued that compliance with CAT standards does not necessarily mean that a product represents the optimum consumer choice in a diverse and rapidly changing marketplace. This may be true in some cases. However, we believe that consumers would be better informed, and financial literacy enhanced if all personal finance products were required to confirm compliance or non-compliance with CAT standards. Wherever possible, consumers need to have the option of identifying financial products that meet a straightforward consumer requirement at the lower end of any risk scale associated with the product type. Consumers should be able to choose such products with confidence

and CAT standards would help to ensure this. Financial service providers who believed that their non-CAT standard product represented a better consumer choice would be faced with the challenge of explaining how the potential consumer benefit outweighed the merits of a CAT accreditation.

- 6.7 The CAB Service recommends that CAT standards should be extended to all products within the personal finance sector. Advertising for all personal finance products should be required to show prominently whether or not the product meets the relevant CAT standard. The determination of the factors to be included within CAT standards should be subject to yearly review.**

Comparative tables

- 6.8 The Financial Services Authority intends to build on the work it has already started to compile and publish tables of comparative information on financial products¹⁹. These tables will help to enable relatively skilled consumers to narrow down their choice of product within the financial services sector. To begin with, comparative information will be provided on personal pensions, investment bonds, unit trust savings, Individual Savings Accounts, endowments, and mortgages. The CAB Service warmly welcomes the intention of the Financial Services Authority to provide this type of information and hopes that the comparative tables will quickly be extended to cover the consumer credit, retail banking and insurance sectors. The Financial Services Authority intends to proceed on a voluntary basis for companies to provide information to be included within the comparative information. We hope that the financial services sector will co-operate fully with this voluntary approach but if not, the CAB view is that a requirement to co-operate should be considered.
- 6.9 The CAB Service recommends that the Financial Services Authority should produce or commission comparative tables to cover the consumer credit, retail banking and household insurance sectors. All product providers in these sectors should be obliged to refer to the existence of these tables in pre-sale information.**

Access to consumer credit

- 6.10 One currently under-utilised provision of the Consumer Credit Act 1974 is the facility for consumers to access their credit reference file. The experience of the CAB Service is that it is invariably a useful exercise for consumers to exercise this right. Not only does it allow the consumer to check and, if necessary, correct the information held against their name but

¹⁹ Response to consultation paper 28: Comparative information for financial services. FSA June 2000

it also provides an insight into the workings of consumer credit decision making and thus helps to better inform the consumer.

- 6.11 Consumers can currently only access their credit reference file on specific application and payment of a fee of £2. This puts the emphasis on the consumer being sufficiently financially literate to know about the provision and the procedure to obtain the file copy. Typically, people will only be notified if they are refused credit.
- 6.12 The importance of the information held on the credit files of consumers is likely to increase in future. More sophisticated credit scoring techniques will use the file information to offer differential interest rates according to the credit 'score'. Consumers who do not check the accuracy of the information held against their name could find that they pay a higher interest rate than necessary. The DTI Overindebtedness Task Force has discussed the merits of an increase in the amount of information held on credit reference files in the interest of better informed lending decisions.
- 6.13 One major credit reference agency already provides clients of CAB money advisers with a free copy of the client's credit reference file. This is helpful to the adviser and instructive to the client. The CAB service considers that it would be a positive step to improving financial literacy if all consumers active in the credit market regularly received a copy of their credit reference file. This would also help to frustrate the activities of 'credit repair' companies who charge financially illiterate consumers for advice on how to access credit files and then provide 'advice' on how to remove adverse information. The CAB Service is at one with the credit industry and the credit reference companies in warning against the activities of credit repair companies.
- 6.14 The CAB Service recommends that all consumer credit application forms should ask whether the consumer wishes to see a copy of any information provided by a credit reference agency in respect of the credit application. Where requested by consumers, credit companies should provide the credit reference information to the consumer before the consumer signs the credit agreement.**

Pre-sale information on insurances

- 6.15 The lack of financial literacy is resulting in CAB evidence of consumers taking out insurance policies that those same consumers would have rejected had they been better informed. Consumers need improved pre-sale information to allow a more informed choice.

6.16 The Private Customer Code of the General Insurance Standards Council (GISC) provides that subscribers to the Code will make sure, as far as possible, that the insurance products and services offered will match the requirements of the consumer. However, there are two key problems. First, standards for sales of insurance such as payment protection insurance are a matter for voluntary self regulation. An inherent problem with voluntary regulation is that companies can choose not to subscribe to industry best practice unless there is a means of ensuring complete coverage. The CAB Service has previously argued that statutory regulation in this area provides a better prospect of protecting the interests of consumers who are, as this report demonstrates, often at a disadvantage in the sales process by reason of lack of information, knowledge, skills and confidence. Second, CAB evidence on the unsuitability of some insurances that are sold to CAB clients suggests that the content of the GISC Code may need to be strengthened so as to ensure that consumers' attention is drawn to the fact that they may not be covered by the insurance product before it is sold to them.

6.17 The CAB Service recommends that insurers should be obliged to provide all policy applicants with a contra-indication list – a list of those for whom the policy is or may be unsuitable. The list should be clearly set out in tabular form and written in plain English. The GISC Private Customer Code and related guidance should be amended to include this as an essential part of the process of matching the product to consumer requirements.

6.18 The CAB Service recommends that insurers, and their intermediaries, should inform consumers at the point of sale if any of the information the consumer has provided in their application for insurance cover indicates that the consumer may not be able to make a valid claim on all or some part of the policy at a future date. The GISC Private Customer Code and related guidance should be amended to include this as an essential part of the process of matching the product to consumer requirements.

Providing consumers with impartial advice on financial issues

6.19 Financial literacy requires that consumers must be able to properly identify and access advice on financial issues. This requires that financial advisers, whether they be advising on unsecured credit, mortgages, debt, investments, pensions, insurances, or any other financial matter, are open in providing information about their competence, experience, and charges. Consumers should be able to easily locate a financial adviser appropriate to their needs and understand and have confidence in the regulation of financial advice.

- 6.20 To most consumers, the term 'financial adviser' refers to those financial advisers who advise on savings, investments, and pension issues, and it is in this area that we see the most need for improvement.
- 6.21 One of the very practical difficulties that consumers face in accessing impartial financial advice is in identifying a suitable adviser. The usual advice is that consumers should seek recommendations from friends or family but this is often unhelpful, particularly for lower income consumers whose friends and family may make limited use of financial services. Secondary advice is that consumers should contact a trade association and request a list of members. Again, this is an unsatisfactory option for many consumers, since they are left with judging for themselves the quality of the advisers. Mis-selling scandals that have severely dented consumer confidence in the competence and integrity of the financial advice industry.
- 6.22 The CAB Service recommends the production of regional directories of authorised financial advisers. The directories should be similar in scope to the Solicitors Regional Directory and should aim to provide consumers with information to help them choose an appropriate adviser. The directories should provide information including the experience of advisers, their specific areas of expertise, qualifications achieved, whether they offer an initial no/low cost initial interview, and whether they are able to recommend a full range of products. The directory should be available in written as well as electronic form.**
- 6.23 CAB experience is that distrust of financial advisers is a significant factor in many consumers not seeking professional advice or putting off making decisions that could be vital to their financial future. Consumers are also commonly distrustful of the commission based payment system. Whilst we accept that this system may represent the optimum method of accessing high quality advice for some consumers, we feel that more consumers would actually take advice if there was a clear alternative. Financial advisers should therefore offer a clear choice between payment by fee or through commission.
- 6.24 The CAB Service recommends that all financial advisers should offer consumers the option of paying an hourly fee rather than the adviser receiving commission on the sale of products. Any commission earned by an hourly paid adviser should be automatically used to the benefit of the consumer in enhancing the benefits or reducing the cost of the purchased product(s). All financial advisers should be obliged to quote their hourly-charging rate in advance of a first appointment with a new client and an estimate, after the first interview, of the future and on-going time element of working on the client's behalf.**

6.25 The reports from CABx of the distrust that clients have of financial advisers means that the industry needs to do more to establish and restore consumer confidence, particularly amongst those consumers who lack financial literacy skills. There is also scope for financial advisors to develop low cost, more accessible services for people who may have relatively straight forward information and advice needs, for example about consumer credit and loans. Many financial advisers already offer a no cost initial meeting but there is still a fear amongst CAB clients that this is simply a trap to allow the adviser to sell commission based products. One way to diminish this fear this could be to promote one-off advice sessions that specifically do not result in the sale of products.

6.26 The CAB Service recommends that all financial advisers consider offering low cost fixed fee, no obligation interviews to consumers who wish to overview their financial position in general terms. These interviews would not offer specific product advice but would allow a general discussion of the finances of the consumer.

6.27 Research for the Financial Services Authority²⁰ shows that consumers trust advice agencies such as Citizens Advice Bureaux to provide information on financial services more than they would any other provider of information. This poses a dilemma for the CAB Service. It would be inappropriate for CABx to give advice on specific financial products. However the trust that consumers have in the Service puts an obligation on the Financial Services Authority (in furtherance of its statutory objectives) and the CAB Service to help ensure that consumers can access high quality independent financial advice.

6.28 Appendix 1 shows how some CABx are already working in co-operation with the financial services industry. In addition to these initiatives, CABx are working with local trading standards departments to form Consumer Support Networks (CSN) which have an aim to ensure that consumers have access to high quality, expert, accurate and timely advice. Further initiatives of this kind could assist consumers lacking in financial literacy skills to access impartial financial advice.

6.29 For many years, Citizens Advice Bureaux have worked with the legal profession to offer free legal advice within bureaux. Typically, legal questions that cannot adequately be answered by CAB advice alone are referred to local solicitors who attend the CAB free of charge on a rota basis. It could be possible to extend this provision to financial advice. However, the arrangements for such provision might need to be tightly defined and effectively monitored.

²⁰ Paragraph 5.1, Better Informed Consumers – FSA April 2000

6.30 This report highlights the need to establish a pilot scheme for independent financial advisers to provide limited advice within Citizens Advice Bureaux along the lines of the pro-bono legal advice currently offered by solicitors. The results from the pilot scheme should be used to decide whether it is appropriate to extend the pilot scheme to other CAB that might wish to offer a similar service.

Financial advice in the workplace

6.31 CAB experience is that concerns over financial problems can often result in problems with work relationships and workplace performance. Provision of advice on personal financial matters can therefore be beneficial to employers. Large employers could also see the facilitation of information provision as a demonstration of their corporate social responsibility.

6.32 Initiatives already exist in this area. Some employers have an existing money education/advice role within their welfare or personnel departments. CAB staff provide talks and generic financial advice to groups of employees and the Financial Services Authority is piloting a number of initiatives. The CAB Service can see a role for more employers following this lead, where resources allow.

6.33 The CAB Service recommends that employers' organisations consider promoting best practice to encourage employers to provide or facilitate the provision of advice and information to their staff on financial issues. Employers who do not wish to take on an on-going responsibility could consider arranging generic talks and seminars for their staff.

6.34 Trade Unions also have a traditional and potential future role to play in providing advice and education to their members. In recent years many unions have provided an increasing range of advice services. For example, a TUC survey in 2001 showed that a total of 36 telephone helplines were offering advice on a variety of topics including legal advice and debt counselling.

6.35 Trade Unions operate on a local level in a supportive setting where those lacking confidence in financial skills can seek advice without the concern that they may be directed into buying inappropriate financial products. Trade Unions could consider extending their services to include advice and information on generic financial issues, particularly where employers could not or would not take up the challenge to do this.

6.36 The CAB Service recommends that trade unions consider the possibility of providing or facilitating generic financial advice service to their members.

Energy utilities

- 6.37 Consumers who are not financially literate or confident as consumers are entitled to be able to enjoy any benefits from the introduction of competition in the energy market, and also the welcome initiatives aimed at fuel poor households. But many of the consumers that CABx advise are simply not able to get access to the information that exists about the choices and options in this market, and they do not have the necessary skills to take advantage of what is on offer and from which they may benefit. This imbalance of power creates the conditions in which abuse in the market, particularly in sales practices, can flourish with the detriment to consumers that we have described in this report.
- 6.38 Consumers who are not financially literate or confident as consumers are entitled to be able to enjoy any benefits from the introduction of competition in the energy market, and also the welcome initiatives aimed at fuel poor households. But many of the consumers that CABx advise are simply not able to get access to the information that exists about the choices and options in this market, and they do not have the necessary skills to take advantage of what is on offer and from which they may benefit. This imbalance of power creates the conditions in which abuse in the market, particularly in sales practices, can flourish with the detriment to consumers that we have described in this report.
- 6.39 The CAB Service recommends that as part of the UK Fuel Poverty Strategy, the Government should take action to ensure the public are made aware of the full range of statutory and voluntary initiatives designed to reduce and eliminate fuel poverty. All information should be provided in a way that is suitable for consumers who are not financially literate.**
- 6.40 The CAB Service recommends that Ofgem, working together with Energywatch and the domestic fuel suppliers, take action to ensure that all the information that they produce for consumers about choosing an alternative supplier is not only high quality and accurate but presented and delivered in a way that is suitable for consumers who are not financially literate.**
- 6.41 We note that Ofgem is taking action in relation to erroneous customer transfers in the form of a voluntary code of practice. The Erroneous Transfer Customer Charter is intended to ensure that where consumers have been erroneously switched, possibly as a result of poor sales and marketing practices, they are switched back to their original supplier as quickly as possible. Whilst this Charter may resolve some of the problems CAB clients have experienced we would like to see Ofgem and the fuel suppliers acting to avoid these problems in the first place. High standards of

service should be the norm in the sales and marketing practices, particularly doorstep and distance selling methods, so as to ensure that consumers who are not financially literate, or who are vulnerable for any reason are not exploited and abused to their detriment.

Advice on debt problems

- 6.42 Consumers with debt problems need advice on strategies and options to increase their income and reduce their expenditure. It is often possible for those with debt problems to make savings in their choice of insurance, mortgage, and other financial products but this will generally require specific product advice and recommendations in order to assist the consumer to put together and implement a strategy and action the savings.
- 6.43 This need for specific product advice can place CAB money and debt advisers in a difficult position. The provision of generic financial advice on strategies to reduce costs is seen as an accepted element of debt advice. However, the increasing complexity of the UK personal finance market means that some CAB clients require more than generic advice. For example, a homeowner may have the option of remortgaging to reduce housing costs. This could be a valid strategy to ease a debt problem but the client will need to identify the most appropriate mortgage product. The result is an inevitable pressure for debt advice to become financial advice. The nature and legal obligations of the CAB Service means that this is a pressure that the CAB Service is not able to respond to.
- 6.44 Proposals by AdFLAG, the Financial Services Authority, and others have emphasised an enhanced future role for generic advice in improving financial literacy. The CAB Service welcomes this emphasis on the need for advice. The role of generic advisers should be properly addressed in any future initiatives. Failure to do this will put clients and advisers at risk. The question must be addressed as to how far it is appropriate for generic advisers to advise on specific financial products in the context of advising on solving the debt problems. And, if not, what appropriate advice can be obtained.
- 6.45 The CAB Service recommends that the Financial Services Authority begins discussions with advice agencies (including Trading Standards departments and Consumer Support Networks) and the financial services sector aimed at explicitly defining the role and reasonable expectations and limits of the financial advice they provide.**

Improved access to advice for social security claimants and tax payers

- 6.46 One area where we believe the Government could play a greater role in enhancing financial literacy is in improving access to advice on social security benefits and tax credits and allowances. At present, the complexity of the benefits and tax system is perpetuating the problem of financial literacy. Consumers lacking financial literacy skills find it very difficult or even impossible to understand the benefits and tax systems. This could also reinforce their reluctance to involve themselves in other areas of personal finance. The requirements on many individuals will increase with plans for new tax credits, which may require more records to be kept of pay, working hours and childcare charges by people claiming tax credits.
- 6.47 The connection between poor basic skills and low income means that a significant proportion of those having difficulties with literacy and numeracy are eligible to claim social security benefits or tax credits. Previous reports from the CAB Service have consistently illustrated the importance of providing high quality and accessible advice to enable low income groups to claim the benefits or tax allowances to which they may be entitled. This becomes increasingly important as the benefits and tax system becomes more complicated.
- 6.48 We support the Government's welfare reform objective, which is "work for those who can, support for those who cannot." The introduction of compulsory work-focussed interviews for people claiming Incapacity Benefit has inherent dangers, because disabled people receiving Incapacity Benefit already face stringent checks at regular intervals. People with continuing entitlement to benefit should receive increased help. We believe it is important that Jobcentre Plus ensures that an efficient service is provided to all its customers.
- 6.49 There are therefore two objectives that should be set for Government in improving financial literacy in benefits and tax credits. Benefit services, and in-to-work services, should help people to get work, or improve their chances of getting work, and should include good quality advice on any financial help that may be available to those in work. It is vitally important that people have access to clear and transparent better-off calculations. These calculations can be done by computer programs, but will typically require some human input to talk people through their options and ensure that every factor has been taken into account. An accurate better-off calculation can convince someone that work is the best option for them. An inaccurate forecast can lead to the wrong decision and disillusionment with working.

- 6.50 Secondly, services should make sure that people are aware of all the benefits and other assistance or help that is available. They should receive assistance applying for those benefits, with payment being made quickly and accurately.
- 6.51 Financial support at the right time, and help with the process of claiming it, can be essential in enabling people to get back on their feet and manage in the community. The personal adviser, or financial assessor role that has been developed for Jobcentre Plus suggests that a skilled, experienced person could be available to help with information about jobs and training. That same person could also steer people with no immediate prospect of employment to the right benefits, assist them with making a claim, and play a key part in promoting financial literacy.
- 6.52 The CAB Service recommends that Jobcentre Personal Advisers and Financial Assessors should promote financial literacy in addition to providing accurate advice and support with information on, and applications for, benefits and tax credits.**

Information from companies within the personal finance sector

“Our bills are recognised as being unclear - they don’t give customers an understanding of what they are being charged for” - Comment from British Telecom debt collection manager²¹

- 6.53 We receive regular reports from Citizens Advice Bureaux of examples of financial illiteracy being maintained and perpetuated by the poor quality of information provided by companies within the personal finance and consumer sectors. For example:
- A CAB in Wales reports of a client who thought he was paying into a savings plan with a lump sum payment after ten years. After five years of making payments and receiving information from the insurance company, he has been told that his savings plan is actually a term life insurance policy which will only pay out in the event of his death within the ten year term.
- 6.54 The estimate that the UK has seven million consumers who have difficulties with literacy and numeracy does not fit well with a society where access to financial services is increasingly important. In the view of the CAB Service, this puts a responsibility on the financial services sector to act pro-actively and responsibly in identifying, responding and supporting those who have poor basic skills. To do so should be seen as a hallmark of corporate social responsibility.

²¹ Quoted in ‘Credit Today’. November 2000

6.55 The CAB Service recommends that the financial services industry ensures as far as possible that consumers fully understand the implications of any agreements that they enter in to and that specific attention is paid to supporting and caring for consumers who may be lacking in basic literacy and numeracy skills. The Banking, Finance and Leasing, Mortgage, and other codes of conduct should include commitments to monitoring and improving financial literacy and detail how this commitment will be fulfilled by individual firms and the sector in general.

Working with advice agencies

6.56 A major concern to the CAB Service is reports from CABx of situations where clients seek advice and authorise the CAB to contact a third party on their behalf, normally in relation to a debt. In these situations the CAB will always provide the written authority of the client for the CAB to discuss the client's account. Normally third parties welcome this facility but on occasions financial services companies will refuse to co-operate.

A CAB in Hampshire reports on a client who has difficulty in reading and writing. The CAB had assisted the client in applying for an administration order through his local County Court. All creditors had been informed of the making of the Order that all future payments would be made through the court. Nevertheless, one well-known credit company continued to contact the client and insist on payment.

A CAB in the Lancashire reports of a client with debts of £1100 arising from illness causing his absence from work and subsequent unemployment. The CAB has arranged a repayment schedule with all creditors except one. This last creditor refuses to discuss the matter with the CAB and instead telephones the client up to three times a day. The client suffers with depression and the telephone calls are necessitating additional medical treatment and lengthening the time it will take for the client to find new employment.

6.57 It is unacceptable that the financial services sector can sell products to consumers lacking in financial literacy skills and then refuse to discuss the matter with agencies who advise and advocate on behalf of consumers.

6.58 The CAB Service recommends that all codes of practice and legislation regulating financial services providers and their agents oblige companies to discuss accounts with authorised third party agencies such as Citizens Advice Bureaux. Evidence of a firm's failure to co-operate with recognised agencies acting on behalf of consumers should be grounds for disciplinary or regulatory action.

7. Lessons learnt from local initiatives

- 7.1 Appendix 1 outlines some of the projects currently undertaken by CABx in England and Wales to improve financial literacy within their communities. We hope it will be a useful contribution to the work of others if we outline some of the conclusions we have drawn from this work.

Go beyond debt prevention

- 7.2 Initially, the majority of CAB financial literacy initiatives aimed at those with inadequate basic skills concentrated on the prevention and management of debt. The assumption being that the link between inadequate basic skills and low income implies the likelihood that many of those with poor basic skills will have debt problems. Our experience now suggests that a wider approach is more helpful in order to attract participants to financial literacy initiatives and maximise their interest.
- 7.3 Some CABx report excellent results from incorporating basic financial literacy issues within the wider context of consumer rights. It is also helpful to include basic information on non-debt financial issues such as insurances, savings, pensions, understanding a pay slip, and completing tax forms. Consumers of all ages and at all social and income groups have an interest in getting a better deal by knowing their consumer rights and therefore this approach does not require participants to identify themselves as lacking in basic skills. There is also evidence from CABx that extending financial literacy projects to include information on consumer rights, income tax, and savings removes the stigma that still surrounds the subject of debt.
- 7.4 The CAB Service recommends that financial literacy initiatives aimed at those lacking basic skills should not concentrate solely on debt prevention. Initiatives should take a broad approach incorporating all aspects of the financial services sector. In particular, information should be provided on consumer rights, savings, insurance, and pensions.**

Working in collaboration

- 7.5 Many CABx are working with other agencies to improve financial literacy. Some work with the Basic Skills Agency, others with statutory organisations such as prisons, schools, health surgeries and probation services. The evidence of CABx that work in this way suggests that collaborative working is effective in reaching those with poor basic skills. Consumers who are suspicious of formal education schemes can be more receptive to a community-based initiative that builds on the trust placed by consumers in agencies that are truly independent and impartial. This is provided, of course, that the agency is trusted and competent.

- 7.6 One example of a community-based initiative is currently underway in the Midlands. Here, the CAB Service is working on a new pilot project aimed at improving the financial literacy of CAB clients with poor basic skills. Five CABx are participating in the project, which is funded until 2002 by the Basic Skills Agency.
- 7.7 All five CABx are working with communities who experience multiple deprivation. The CABx are involved in local partnerships as well as the delivery of specialist services. For example, Wolverhampton District CAB is a partner in the Sure Start trailblazer area of Bilston and Ettingshall. They hope to refer people to the new financial literacy service through their Sure Start outreach worker and established money advice function.
- 7.8 The CABx are working in partnership with local basic skills providers to secure specialist expertise. They will also be using, adapting and developing new financial literacy resources that relate to their clients' needs and the government's new core curriculum for literacy and numeracy.
- 7.9 The success of the pilot will be evaluated with the support of a Project Development Officer and is expected to include participatory appraisal techniques.
- 7.10 The CAB Service recommends that initiatives to improve financial literacy should be built as and limited to local community based initiatives using organisations, and venues that are trusted by consumers as being independent and impartial.**
- 7.11 Some CABx are entering into arrangements with the financial services sector to improve the financial literacy of local groups in areas other than budgeting, credit and debt. The experience of these CABx to date is positive and the partnership approach enables client groups to benefit from the knowledge and experience of the financial services industry but in a community setting that they know and trust.
- 7.12 There are significant potential advantages from a closer working relationship between community groups and the financial services sector. However, the CABx working in this way are acutely aware of the need to ensure that the independence of their work is not questioned by such partnerships.
- 7.13 Guidelines on partnership working between the voluntary and private sector may assist local groups to take forward initiatives. These could be developed by individual national bodies or under the umbrella of the strategy we have called for in Chapter 5 of this report.**

Use best practice materials

- 7.14 We have already explained how the increased interest in financial literacy over recent years has resulted in a substantial amount of material being produced to educate and inform. There is inevitably a significant element of reinvention of the wheel and it would be helpful if there was more consistency and learning from best practice.
- 7.15 In addition, work in the United Kingdom on Financial Literacy is still in its infancy and work in this area will clearly evolve over time. There is a need to capture best practice and to facilitate future research that builds on the numerous current initiatives.
- 7.16 The CAB Service recommends that, as part of the national strategy, a single body has the clear responsibility for collating all materials used to provide training on financial literacy and for evaluating and recommending good practice in the area.**

Focus on life change events

- 7.17 Evidence from CABx suggests strongly that a time of life change event represents an important opportunity to attract consumers into discussions on financial issues. These life change events include progression to further education, marriage, birth of a child, divorce, retirement, and death of a partner. It is at these times that individuals take stock of their lives and are more amenable to advice on future financial planning.
- 7.18 Some of the educational material available on financial literacy does already concentrate on life change events. And the government's ukonline web site provides information in this way. It would be helpful to extend the provision of information.
- 7.19 The CAB Service recommends that initiatives to improve financial literacy should concentrate in the first instance on the impact of life change events. The Government should produce or commission easily accessible educational material explaining the financial consequences of life change events.**

Bibliography

A balancing act – NACAB. September 1999

Adult Financial Literacy Advisory Group Report to The Secretary of State for Education and Employment – DfEE. December 2000

A guide to the provision of financial services education for consumers – FSA
March 1998

A new role for money education – Consumers Association. February 1999

Benefits and work – NACAB July 1997

Better Informed Consumers: Consumer Research Paper No 1 – FSA. April 2000

Cracking the Codes for Banking Customers – Banking Services Consumer
Codes Review Group. May 2001

Effective Basic Skills Provision for Adults – The Basic Skills Agency. January
2000

Financial Literacy in Adult life – National Foundation for Educational Research
May 1996

Improving Literacy and Numeracy: A fresh start – DfEE 1998

Make or Break – NACAB 1993

Money Education Begins At Home – Ewels and Knights, Keele University, 2000

Productivity in the UK: Enterprise and the Productivity Challenge. HM Treasury
and Department of Trade and Industry. June 2001

Promoting Financial Inclusion – British Bankers Association. July 2001

Protecting Vulnerable People – Better Regulation Taskforce. September 2000

Report by the task force on tackling overindebtedness- DTI Consumer Affairs
Directorate. July 2001

Report from a Money Advisers and Personal Finance Education Conference –
University of Nottingham Business School. September 1999

Response to consultation paper 28: Comparative information for financial services. FSA June 2000

Short Changed – NACAB. January 1997

Skills for life – Department for Education and Employment. 2000

Tackling Financial Exclusion: An area-based approach – Joseph Rowntree Foundation. June 2001

Tackling loan sharks – and more! - DTI. July 2001

Work in progress – NACAB. February 2001

Appendix 1: CAB financial literacy initiatives

1. As at September 2001, over sixty CABx in England and Wales were engaged in specific projects to improve the financial literacy of people and groups within their community.
2. In almost all cases, the impetus for each financial literacy project has come from the CAB itself. CAB are based in their local communities and have seen first hand the local impact of the lack of financial literacy. In many cases, the major impetus behind a scheme has been a concern that the demand for debt advice from local people is steadily increasing. Education on money management is seen as a pro-active way of meeting the demand for advice.
3. CABx are in a unique position within their local communities so far as financial literacy is concerned. Research from MORI in 1999 and 2001²² has shown that consumers have a very high awareness of the existence and role of the CAB Service. Combined with this, research conducted for the Financial Services Authority has shown that CABx receive the most positive reaction of all alternatives offered when consumers are asked about who they most trust to provide advice and information on financial matters. CABx are seen as being totally independent from the financial services sector yet with extensive first hand experience of the financial problems experienced by consumers both locally and nationally.
4. The local nature of the majority of CAB initiatives means that they are small in scale. This is a positive attribute. Many consumers are uncertain and suspicious when it comes to any promotion of financial education. Often this is caused by the previous activities of the financial services industry which leads many consumers to feel that there must be some 'catch' in any initiative to improve consumer understanding. A small, locally based scheme using a trusted independent provider of advice can help overcome this barrier.
5. The most common venue for a CAB financial literacy initiative is within a local school. Typically this involves one or more presentations to those between the ages of 15 to 18 - although some CABx are working with much younger groups.
6. The majority of initiatives have been funded through the existing grant aid given to the CAB by their local authority. There is, however, an increasing trend towards specific funding applications to enable financial literacy initiatives.

²² Peoples Panel – Report for NACAB (August 1999), What's up with CABx? – Assessing public awareness and satisfaction (September 2001)

The CAB Initiatives

Anfield and Norris Green CAB provides money management courses in five local secondary schools using materials written by their Community Money Advice Worker. The emphasis is on budgeting and the optimum use of credit. A grant of £5,000 from Lloyds TSB is being used to produce a comprehensive information pack to distribute to young people in the local area and the CAB also plan to host a conference to discuss the problems posed by the lack of financial literacy in their region. Finally, the CAB is collaborating with John Moores University on a research project examining how and why low income families use credit. This has involved organising a series of focus groups, in which CAB clients have participated, and a questionnaire, again used with clients.

Ashfield CAB provides debt prevention courses to fifth and sixth formers at a local school. Plans are in hand to enhance this work by offering basic skills courses to adults in the local community.

Bebbington CAB provides presentations on financial management to local schools. They are also using video conferencing facilities to provide advice on money issues.

Bedford and District CAB work in partnership with several organisations, including Bedford Borough Council and Bedfordshire Pilgrims Housing Association. Three workers provide presentations on financial management to local community, school, and higher education groups. The CAB also provide advice and training on money management within a new housing initiative that provides accommodation for 16 - 25 year olds who would otherwise be homeless. The CAB comment, "this is the first time that most of these young people have been responsible for buying their own food and other items and it is a real temptation for them to spend their income or benefit on the day that they receive it. This means that some are going for long periods without money and are prime candidates for credit from local operators who target those on low incomes."

Biddulph CAB has two hours a week allocated to financial literacy initiatives funded under the Single Regeneration Budget. This enables the CAB to work with a local school and offer interactive presentations to 15 and 16 year olds on money management topics.

Bilston CAB offers a weekly Money Matters Club to provide local people with the opportunity to discuss financial issues.

Bootle CAB has funding from the National Lottery Community Fund for a money advice and anti-poverty project. This has enabled the CAB to offer presentations to students between the ages of 15 and 18.

Brandon CAB is working with a local school to provide a lesson to sixth formers on money management. They are hoping to extend this through production of leaflets, a CD-ROM, and a web site.

Burton CAB provides sessions to local school leavers. The topics include money management and also consumer contract issues. A specific session for those going on to University covers student loans and specific guidance on managing on a student budget. This work is funded by a yearly grant of £990 from Halifax plc. The CAB is extending the schools project to include primary schools. The CAB also receives a National Lottery Community Fund grant that enables it to train the staff of other agencies in the techniques of advising on debt.

Burntwood and District CAB works with local schools to provide advice sessions to fifth and sixth formers. The topics covered include consumer rights as well as money management issues.

Castle Point CAB is undertaking work with various groups in their local area. Funding from the Basic Skills Agency enables the CAB to provide guidance interviews and tutored sessions in sixth form and adult colleges with the objective of increasing confidence and skills in literacy and numeracy. Other funding from the Anglian Water Trust means the CAB provides curriculum material for local schools on personal financial management issues and group sessions for school leavers. The CAB is also developing a self- help package for further education students. This will be in the form of a web site and is being designed by a group of Millennium Volunteers.

Chesterfield CAB employs a debt empowerment worker. The CAB sees this worker as representing the crucial difference between the advice sector and the legal sector. The CAB want to do more to help local people help themselves when it comes to financial issues so that that fewer will need to seek assistance from a third party because of financial difficulties.

Cirencester CAB undertook a pilot project in the second half of 2000, working with the Money Management Council to improve the personal finance knowledge of local people. The CAB offered a weekly money clinic. The clinic concentrated on the area of 'prevention' of financial problems, rather than the usual CAB approach of 'cure'. The truly innovative part of the project was that the money clinic was staffed by advisers provided free of charge by HSBC and Zurich Financial Services.

Cynon Valley CAB employs a development worker to provide learning materials aimed at those between the ages of 9 and 25. One initiative that has been possible through this worker has been a collaborative project with a local bank and a local supermarket. The project is aimed at primary schools. The

CAB provides a worker to lead discussions and quizzes on topics such as pocket money spending, the bank manager provides basic information on the use of credit cards and the importance of saving, and the supermarket manager explains how supermarkets price and place products. The children that completed the project were awarded a certificate and also given CAB pens and badges. The original idea of the CAB was that parents of the children would take responsibility for delivering some of the course. However, the parents failed to respond to this idea although some did attend the sessions as participants.

Debt Advice within Northumberland CAB is working in partnership with Northumberland Social Services, Northumberland Mental Health Trust, Northumberland Health Action Zone and Northumberland College to develop a financial literacy initiative based on debt prevention and support for vulnerable people. The project aims improve the health of local people by reducing the stress of vulnerable individuals suffering the effects of debt. The CAB is also continuing to work with young people in schools by continuing to offer "Money Management" days.

Northumberland College is producing courses for users of the CAB service on topics such as, "Routes to Empowerment", "Financial Assertiveness", and "Managing on a budget".

In June 2000, the five **CAB consortium in East Cornwall (Liskeard, Newquay, Bodmin, Saltash and St Austell)** successfully gained £543,000 European Objective 1 funding. Cornwall has Objective 1 status because it is one of the poorest areas in Europe, comparable with areas of Portugal and the Greek Islands. As part of the initiative the CAB have formed a partnership with the Employment Service to offer a 'Build on your Skills' programme. The District Manager of the Employment Services said: "We recognise the unique position of the CAB and value the breadth of work they do to tackle social exclusion, bot for individuals and communities. The proactive work is invaluable in community regeneration and the CAB are a key partner in rural East Cornwall".

Liskeard CAB also provides training in money issues for key staff of a local credit union. The CAB was instrumental in promoting the idea of a local credit union and subsequently helped to obtain funding from a consortium of the EEC, the local authority, and the Church Urban fund. The Open College accredits the training. Knowledge of debt problems, local statistics, training, and accreditation has been an invaluable resource for the credit union.

Ellesmere Port CAB works on two local initiatives. The first involves presentations to local secondary schools whilst the second provides information to the general public through a local health centre. The topics covered include budgeting, managing money, and a comparison of the different types of credit and the relative costs.

Farnborough CAB works in collaboration with a local Housing Association and NSPCC centre to provide regular talks to low income families. The aim is to equip the families with the skills necessary for effective day to day financial management. The talks include information on budgeting, the use of credit, the role of credit unions, and housing matters.

Folkestone CAB's Specialist Money Adviser provides talks on money matters to local sixth formers. The CAB also provides information on money management through an outreach service at a local community centre that is attached to a primary school.

Gloucester CAB have a track record over a number of years of innovative work in financial literacy. In 1997 the CAB received funding to investigate the relationship between local poverty and levels of education. This led to a pilot programme entitled 'FLIPS', Financial Literacy in Primary Schools. The CAB devised an information pack specifically aimed at children of primary school age and has since continued to use this pack with much success.

Great Yarmouth CAB offers a 'Know Your Rights' course which includes sessions on credit and debt. The course has been successfully run on eight separate occasions and it consists of six weekly morning sessions. Those who complete the course are awarded a CAB certificate. As at March 2001, over 50 local people have completed the course, which is funded by the National Lottery Community Fund. The CAB is also working with the Norfolk County Council's Youth and Community Service to develop debt awareness sessions for young people up to 24 years of age via the "Sorted" Advice Shop.

Lottery funding allows **Halton CAB** to employ four community money advisers who will be running budgeting skills workshops at local secondary schools, large employers work places, health and community centres.

Havant CAB has developed budgeting skills workshops delivered through community groups. These focus on benefit awareness, household budgeting, and basic debt management. The bureau is also working in conjunction with South Downs College to include a budgeting skills lesson within the accredited basic literacy classes.

Havering CAB is using Single Regeneration Budget (SRB) funding to employ a dedicated debt counsellor to write materials to help combat a local growing trend of debt created by lack of knowledge and financial exclusion.

The CAB also uses SRB and charitable trust funding to employ a credit union development worker. It is envisaged that the credit union will go live towards the end of 2002, and some of its main aims will be to educate its members in

financial matters, to reduce financial exclusion and to equip local people to take control of their own affairs.

Hillingdon CAB have received a grant from the DfES Adult and Community Learning Fund to develop basic written and audio self help financial literacy materials in English, Somali, and other community languages.

Hull CAB works with a local school to provide 14 year olds with a talk on budgeting and associated money matters. At the request of the school, the talk is aimed at those students who have a history of truancy.

Lichfield CAB works with a local youth offenders institute to offer budgeting and financial management advice to young men between the ages of 18 and 25 who are shortly to be released into the community

Lewisham Money Advice Service offers talks to mental health groups, those leaving residential care, and pre-release prisoners. The topics covered include budgeting, accessing bank account, and the help available in case of difficulty. The CAB is particularly keen to include the partners of their client group within the talks as it sees this as being particularly helpful to ensuring that the information is retained.

Marham CAB provides talks on money matters to local groups including SSAFA (Soldiers, Sailors, Airmen and Families Association). The RAF has asked the CAB to provide basic training in money issues to key RAF officers. This is in order to help cope with the anticipated money problems of some of the 900 service personnel plus dependants, when they are redeployed from Germany to RAF Marham.

Newcastle-under-Lyme CAB provides talks to a local school on money management and on a wider range of topics covering rights and responsibilities. The talks are designed to fit in with the curriculum requirement to cover personal, social and health education and citizenship matters. The school pays the CAB £600 for delivering twelve sessions.

Newport (Isle of Wight) CAB makes presentations to local community groups on credit and debt issues. On average, the CAB offers eight or nine presentations each year.

North Denbighshire CAB works with local schools, job clubs, and young peoples projects to provide talks on budgeting, the optimum use of credit, and general work issues. The CAB is able to offer the talks because of the National Lottery funding of a money advice development post. The CAB has also produced a self-help pack in both English and Welsh and is currently working to produce a pack for the local Islamic community.

North Warwickshire Anti-Poverty Project receives National Lottery Community Fund funding to include the improvement of financial literacy. Work undertaken to date includes a booklet covering money management topics for students leaving home (produced in association with Burntwood CAB). The project is also working with their local NatWest branch & the Workers Education Association to provide lessons in money management to sixth form school students. The Project uses some of the lottery funding to employ a trained and experienced teacher to jointly facilitate these sessions together with providing a trained debt worker to provide professional support.

The Anti-Poverty Project also joins with the Workers Education Association to provide financial literacy courses within miners' welfare clubs for the local community. The training covers money management plus associated topics such as local exchange training schemes and credit unions, both of which were developed by the Project.

Nuneaton CAB offers a six week course on credit and debt for fifth formers at a local school. The CAB has also twice participated in a schools conference on 'You and Your Money'. This involved presentations to fifth form students from a range of organisations including the CAB, the Benefits Agency, Mortgage Lenders, and Banks.

Oldham CAB have responded to the problems of debt and financial exclusion in a particularly deprived local area with their 'Money Tree Project'. This provides community groups and other organisations with talks and exercise on topics associated with managing personal finance. The work has extended out to a successful conference on regeneration of the area and the establishment of a local credit union.

Potters Bar CAB designated June 2000 as 'Money Month' and worked with Churches Together to provide a series of eight talks on money management topics. The talks were backed up with a professionally designed booklet, a dedicated advice telephone line, and a website.

Rayleigh CAB works with Castle Point CAB (see above) in an initiative entitled 'Never Too Late To Learn'. The Basic Skills Agency funds this work.

Reading CAB offers training and information courses on money issues to local social workers, probation officers, and voluntary support groups. These courses are charged at between £40 and £80 per day depending on the funding of the participating organisation. The CAB also offers presentations to sixth formers as part of the Life Skills syllabus. These presentations cover budgeting and debt management issues. The presentations form part of the Associated Examining Board GCSE 'Certificated Life Skills course'. The course is assessed by examination and students that pass the examination receive a Basic Skills Certificate.

Redditch CAB works with a local partnership of agencies to raise awareness of issues concerning credit and debt. This has resulted in an on-going campaign called 'How Much Are You Really Paying'. Various leaflets and posters have been produced to alert local consumers to the realities of credit agreements

Salisbury and District CAB offers a programme of talks in collaboration with the National Children's Home. The talks are mainly aimed at single mothers and include budgeting, the different types of credit, and dealing with financial difficulties. Experts from other agencies then complete the course with talks on energy efficiency, credit unions, and the best ways to feed children on a limited budget.

Sheffield Debt Support Unit receives with New Deal funding from the Sheffield Careers Guidance Service to provide a money management service to the young unemployed. The service includes presentations on budgeting and the use of credit as well as an advice surgery

The Youth Worker at **Southampton CAB** has developed a set of 'money matters' materials for use with local groups.

South Denbighshire CAB has secured funding for a Young Persons Advice Worker. Working in partnership with the Denbigh Youth Project, funding has been received from the Tudor Trust SDS money. The advice worker will work with young people via the CAB, Youth Project, schools and youth clubs, and one part of the remit of the post is to promote financial literacy to young people.

Speke CAB is working with Speke Garston Education Action Zone, Speke Garston Single Regeneration Budget Challenge Partnership, and other partners to develop a financial literacy partnership project for young people. The project includes the production of financial literacy information packs, and CAB money advisers working with year 10 and 11 pupils, youth workers, and young people in youth settings. The project aims to involve young people in designing material on money issues for use amongst their peers.

St Helens CAB provides talks on money management topics all sections of the local community. The presentations are in partnership with Age Concern, Newton and Haydock NHS Primary group, St Helens College, YWCA and other local organisations. The work is funded by the Coalfields Regeneration Trust.

Tameside CAB is working with the Sure Start initiative to promote financial literacy amongst young people

Telford CAB has worked in partnership their Local Authority to provide a special education pack designed to show young people how to understand,

plan and manage personal and family finance. The pack is to be provided to all secondary schools in the Telford area.

Torbay CAB Service (which includes Torquay, Paignton, and Brixham CAB) visits sixth formers at schools and provides talks to local residents groups on issues connected with general rights and responsibilities.

Torbay CAB also provide the Foxhole Community Advice Project, an outreach service funded by the National Lottery Community Fund. The project has been recommended for accreditation against the Guidance Council Quality Standards for LIAG (Local Information and Guidance Network) which means that the project is able to offer advice and information on educational training and work based training. As well as advising clients, the project is involved in networking with other local agencies and has recently started an Open University 'Build On Your Skills' course at Foxhole Infants School. There is also a course starting, in partnership with Paignton Community College called 'Form Fear'. This is a free ten lesson course aimed to help individuals feel more confident when filling in forms etc.

Wallasey CAB provides training in debt and credit issues for other voluntary and statutory groups and also provides talks to a local school.

Warrington CAB is working with their local credit union to provide training for the staff there. The CAB money adviser also acts as Chairman of the credit union.

Wearside Money Advice Unit provides talks on debt and credit issues to offenders, other clients of the probation service, and womens groups

Wellington CAB, as part of a project funded by the National Lottery Community Fund, provides financial education talks to all year 10 pupils in local secondary schools. The topics include budgeting, how credit works, and debt avoidance. The CAB has also produced a financial education pack, which is intended will shortly become available to all Shropshire pupils.

West Berkshire CAB is liaising with West Berkshire Education and Business Partnership to make presentations to local sixth formers on the topics of consumer credit and consumer protection.

Five CABx in the West Midlands are participating in a financial literacy project which is funded until March 2002 by the Basic Skills Agency. The project aims to reach people who don't have the confidence to go to a local college and most people using the new service are expected to come through internal referrals. The CABx are working in partnership with local basic skills providers to secure specialist expertise.

All five pilot CABx are working with communities who experience multiple deprivation and are involved in local partnerships. For example, **Wolverhampton District CAB** is a partner in the Sure Start trailblazer area of Bilston and Ettingshall. They will refer people to the new financial literacy service through their Sure Start Outreach Worker and established money advice function. Learners will develop practical skills that will help them make informed consumer choices. For example, they might develop their applied numeracy skills by calculating APRs on personal loans. CABx will also be generating new financial literacy resources that relate to their clients' needs and the government's new core curriculum for literacy and numeracy.

Ashfield CAB and Dudley District CAB are both undertaking internal capacity building as a part of their projects. For example, Ashfield District CAB has successfully run a one-day basic skills awareness raising course to help workers identify and refer clients to the service. Dudley District is providing specialist basic skills training for their ESF funded Training Officer. Financial Literacy Courses are already delivered to local community groups via ESF and the training will enable CAB to adapt and develop existing courses to meet the needs of learners with poor basic skills.

Walsall CAB and Chemsley Wood CAB are both expecting most of their referrals to come via their caseworkers and are currently piloting new internal referral mechanisms. Chemsley Wood is expecting to take referrals via their Debt Caseworker and Lottery funded 'Form Filling' project.

Wickford CAB is working with their local County Council to provide talks on money management to Year 11 students who attend the Alternative Education Scheme due to exclusion from school.

The CAB also offers workshops that incorporate budgeting, access to credit and coping with debt to local sixth formers.

Appendix 2: List of recommendations

Paragraph 5.6

The CAB Service recommends that the Government should ensure that a national strategy for improving financial literacy is developed. This should be a ten-year programme and bring together the various current and future initiatives within the public, private, and voluntary sectors with the overall goal to build consumer confidence and skills in relation to all personal finance matters including social security benefits, tax, consumer credit, savings, insurances and pensions. The strategy should:

- Ensure that all consumers are provided with, or can easily obtain suitable information that allows them to choose between and manage their choice of financial products;
- Ensure that consumers are able to access high quality impartial advice on financial issues;
- Enhance education initiatives to improve literacy and numeracy skills;
- Ensure consumers are effectively protected against the abusive practices of the financial services sector;
- Measure and evaluate the success of financial literacy initiatives and promote best practice in this area.

Paragraph 5.8

To complement the national strategy, all government policy relating to consumer and financial services, welfare benefits and tax credits and other personal financial matters should be 'financial literacy proofed'. The financial literacy implications of new policy should be identified and the implementation of the policy should explicitly address the need to ensure that consumers have sufficient knowledge and skills to take best advantage of new products and services.

Paragraph 5.15

The CAB Service recommends that the British Bankers Association produce guidelines for its members on upgrading basic bank accounts and the sale of additional products to basic account customers.

Paragraph 5.19

The CAB Service recommends that the need to improve financial literacy forms an objective for the review of the Consumer Credit Act 1974. The Government should consider how consumer financial literacy will be improved as a result of the proposed changes to legislation and regulation in this area.

Paragraph 5.22

The CAB Service recommends that the government argue against any European Union Policy initiative which would link the mandatory tie-in of payment protection insurance with the purchase of consumer financial products.

Paragraph 5.24

The CAB Service recommends that the Department of Trade and Industry, as part of the review of the Consumer Credit Act 1974, should consider whether it is in the consumer interest to decouple payment protection insurance from consumer credit agreements.

Paragraph 5.28

The CAB Service recommends that, as part of the changes the government is proposing to make to the consumer credit licensing system, all applicants for consumer credit licences that permit the sale of financial products and services are obliged to show how they would meet the needs of those with poor basic literacy and numeracy skills. Repeated abuse of vulnerable consumers should result in a 'fast track' revocation of a licence and effective penalties in the form of fines.

Paragraph 6.7

The CAB Service recommends that CAT standards should be extended to all products within the personal finance sector. Advertising for all personal finance products should be required to show prominently whether or not the product meets the relevant CAT standard. The determination of the factors to be included within CAT Standards should be subject to yearly review.

Paragraph 6.9

The CAB Service recommends that the Financial Services Authority should produce or commission comparative tables to cover the consumer credit, retail banking and household insurance sectors. All product providers in these sectors should be obliged to refer to the existence of these tables in pre-sale information.

Paragraph 6.14

The CAB Service recommends that all consumer credit application forms should ask whether the consumer wishes to see a copy of any information provided by a credit reference agency in respect of the credit application. Where requested by consumers, credit companies

should provide the credit reference information to the consumer before the consumer signs the credit agreement.

Paragraph 6.17

The CAB Service recommends that insurers should be obliged to provide all policy applicants with a contra-indication list – a list of those for whom the policy is or may be unsuitable. The list should be clearly set out in tabular form and written in plain English. The GISC Private Customer Code and related guidance should be amended to include this as an essential part of the process of matching the product to consumer requirements.

Paragraph 6.18

The CAB Service recommends that insurers, and their intermediaries, should inform consumers at the point of sale if any of the information the consumer has provided in their application for insurance cover indicates that the consumer may not be able to make a valid claim on all or some part of the policy at a future date. The GISC Private Customer Code and related guidance should be amended to include this as an essential part of the process of matching the product to consumer requirements.

Paragraph 6.22

The CAB Service recommends the production of regional directories of authorised financial advisers. The directories should be similar in scope to the Solicitors Regional Directory and should aim to provide consumers with information to help them choose an appropriate adviser. The directories should provide information including the experience of advisers, their specific areas of expertise, qualifications achieved, whether they offer an initial no/low cost initial interview, and whether they are able to recommend a full range of products. The directory should be available in written and electronic form.

Paragraph 6.24

The CAB Service recommends that all financial advisers should offer consumers the option of paying an hourly fee rather than through the adviser receiving commission on the sale of products. Any commission earned by an hourly paid adviser should be automatically used to the benefit of the consumer in enhancing the benefits or reducing the cost of the purchased product(s). All financial advisers should be obliged to quote their hourly-charging rate in advance of a first appointment with a new client and an estimate, after the first interview, of the future and on-going time element of working on the client's behalf.

Paragraph 6.26

The CAB Service recommends that financial advisers offer low cost fixed fee, no obligation interviews to consumers who wish to overview their financial position in general terms. These interviews would not offer specific product advice but would allow a general discussion of the finances of the consumer.

Paragraph 6.30

This report highlights the need to establish a pilot scheme for independent financial advisers to provide limited advice within CABx along the lines of the pro-bono legal advice currently offered by solicitors. The results from the pilot scheme should be used to decide whether it is appropriate to extend the pilot scheme to other CAB that might wish to offer a similar service.

Paragraph 6.33

The CAB Service recommends that employers' organisations consider promoting best practice to encourage employers to provide or facilitate the provision of advice and information to their staff on financial issues. Employers who do not wish to take on an on-going responsibility could consider arranging generic talks and seminars for their staff.

Paragraph 6.36

The CAB Service recommends that trade unions consider the possibility of providing or facilitating a generic financial advice service to their members.

Paragraph 6.39

The CAB Service recommends that as part of the UK Fuel Poverty Strategy, the Government should take action to ensure the public are made aware of the full range of statutory and voluntary initiatives designed to reduce and eliminate fuel poverty. All information should be provided in a way that is suitable for consumers who are not financially literate.

Paragraph 6.40

The CAB Service recommends that Ofgem, working together with Energywatch and the domestic fuel suppliers, take action to ensure that all the information that they produce for consumers about choosing an alternative supplier is not only high quality and accurate but presented and delivered in a way that is suitable for consumers who are not financially literate.

Paragraph 6.45

The CAB Service recommends that the Financial Services Authority begins discussions with advice agencies (including Trading Standards departments and Consumer Support Networks) and the financial services sector to explicitly define the role and reasonable expectations and limits of the financial advice they provide

Paragraph 6.52

The CAB Service recommends that Jobcentre Personal Advisers and Financial Assessors should promote financial literacy in addition to providing accurate advice and support with information on, and applications for, benefits and tax credits.

Paragraph 6.55

The CAB Service recommends that the financial services industry ensures as far as possible that consumers fully understand the implications of any agreements that they enter in to and that specific attention is paid to consumers who may be lacking in basic literacy and numeracy skills. The Banking, Finance and Leasing, Mortgage, and other codes of conduct should include commitments to monitoring and improving financial literacy and detail how this commitment will be fulfilled by individual firms and the sector in general.

Paragraph 6.58

The CAB Service recommends that all codes of practice and legislation regulating financial services providers and their agents oblige companies to discuss accounts with authorised third party agencies such as Citizens Advice Bureaux. Evidence of a firm's failure to co-operate with recognised agencies acting on behalf of consumers should be grounds for disciplinary or regulatory action.

Paragraph 7.4

The CAB Service recommends that financial literacy initiatives aimed at those lacking basic skills should not concentrate solely on debt prevention. Initiatives should take a broad approach incorporating all aspects of the financial services sector. In particular, information should be provided on consumer rights, savings, insurance, and pensions.

Paragraph 7.10

The CAB Service recommends that initiatives to improve financial literacy should be built as and limited to local community based

initiatives using organisations, and venues that are trusted by consumers as being independent and impartial

Paragraph 7.13

Guidelines on partnership working between the voluntary and private sector may assist local groups to take forward initiatives. These could be developed by individual national bodies or under the umbrella of the strategy we have called for in Chapter 5 of this report.

Paragraph 7.16

The CAB Service recommends that, as part of the national strategy, a single body has the clear responsibility for collating all materials used to provide training on financial literacy and for recommending good practice in the area.

Paragraph 7.19

The CAB Service recommends that initiatives to improve financial literacy should concentrate in the first instance on the impact of life change events. The Government should produce or commission easily accessible educational material explaining the financial consequences of life change events.

Appendix 3: CABx that submitted evidence between April 2000 and March 2001

EAST REGION	Letchworth	Bermondsey
Abbots Langley	Loughton	Bexleyheath & Welling
Amersham	Lowestoft	Brent
Aylesbury	Luton	Brentford & Chiswick
Basildon	Maldon & District	Bromley & Chislehurst
Beccles	Mid-Bedfordshire (Amphill)	CALL (Citizens Advice for London)
Bedford & District	Mid-Suffolk (Stowmarket)	Catford
Billericay	Mildenhall & Brandon	Croydon Money Advice Unit
Bishop's Stortford District	Milton Keynes (Bletchley)	Dagenham
Braintree & District	North Walsham & District	Eltham
Broxbourne	Northampton & District	Enfield Town
Bury St Edmunds	Norwich & District	Feltham
Cambridge & District	Oxhey & District	Finchley (Friern Barnet)
Castle Point	Peterborough	Fulham
Chelmsford	Rickmansworth	Greenwich Money Advice Service
Corby	Royston	Harrow (Harrow Outreach)
Daventry & District	Southend-on-Sea	Hendon
Dereham (Norfolk Rural)	St Albans	Hillington (Hayes)
Diss Eye & Harleston	St Neots	Holborn
Dunstable & District	Stevenage	Holloway
Ely	Sudbury	Hornchurch
Epping	Uttlesford (Saffron Walden)	Hornsey
Felixstowe & District	Waltham Abbey	Kentish Town
Fenland (Main)	Ware & District	Kingston & Surbiton
Great Yarmouth	Watford	Lewisham Money Advice Service
Harlow	Wellingborough	Leytonstone
Haverhill	Wickford	Merton Money Advice Service
Hemel Hempstead (Dacorum)	Witham	Mitcham
Hertford	Wymondham & District	Morden
High Wycombe		New Barnet
Hitchin	LONDON REGION	Newham Docklands
Huntingdon	Addington	Orpington
Ipswich & District	Barking & Dagenham	Paddington
Kettering	Beckenham & Penge	Palmers Green
Kings Lynn & District	Beddington & Wallington	
Leighton Linlade		
Leiston & Saxmundham		

Pimlico
 Putney
 Redbridge
 Richmond Upon
 Thames
 Romford
 Sheen
 St Helier
 St Marylebone
 Sutton
 Sydenham
 Thornton Heath
 Tooting & Balham
 Tottenham
 Tower Hamlets East
 Twickenham
 Upper Street
 (Highbury)
 Walthamstow
 Woolwich

MIDLANDS REGION

Acocks Green
 Ashfield
 Banbury & District
 Bassetlaw (Retford)
 Bedworth & District
 Beeston
 Biddulph
 Bilston
 Birmingham City
 Centre
 Boston
 Bridgnorth & District
 Brierley Hill
 Bromsgrove & District
 Burton-upon-Trent
 Cannock
 Charnwood
 Coventry
 Cradley Heath
 Derby
 Dudley
 Grantham & District
 Grimsby
 Halesowen

Harborough District
 Hereford & District
 Leek
 Leicester
 Lichfield
 Lincoln & District
 Low Hill
 Lutterworth
 Madeley
 Malvern Hills District
 Mansfeild & District
 Matlock
 Melton Mowbray
 Newark & District
 Newcastle-under-
 Lyme
 North East Derbyshire
 (Clay Cross)
 North Shropshire
 (Market Drayton)
 North Warwickshire
 Nottingham & District
 Nuneaton
 Redditch
 Rugby
 Rugeley
 Rutland
 Shrewsbury
 Sleaford
 Smethwick
 Solihull
 South Derbyshire
 South Holland
 South Shropshire
 Stamford & District
 Stoke-on-Trent
 (District)
 Stone
 Stourbridge
 Straford-on-Avon
 Sutton Coldfield
 Telford Town Centre
 Uttoxeter
 Walsall
 Warwick District
 Wellington

West Bromwich
 West Lindsey
 Worcester
 Wychavon District
 (Evesham)
 Wyre Forest

NORTH REGION

Alnwick & District
 Barnsley
 Batley (N. Kirkless)
 Blyth Valley
 Boothferry District
 Bradford (West
 Yorkshire)
 Calderdale
 Chapeltown
 Chester-Le-Street
 Craven (Skipton)
 Derwentside
 Doncaster
 East Yorkshire
 Eastern Borders
 Gateshead
 Halifax (Mid Valley)
 Harrogate
 Hartlepool
 Hull City Centre
 Leeds
 Middlesbrough
 North Tyneside (The
 Valley)
 Otley
 Redcar & Cleveland
 (Guisborough)
 Richmondshire
 Ripon
 Rotherham
 Scarborough &
 District
 Selby District
 Sharrow (Sheffield)
 Sheffield Debt
 Support Unit
 South East Sheffield

South Kirklees
(Huddersfield)
Stainforth
Stockton & District
Information & Advice
Service
Tynedale
Wakefield District
Wansbeck
Washington
Wear Valley
Wearside Money
Advice Unit

**NORTH WEST
REGION**

Altrincham
Ashton-in-Makerfeild
Atherton
Barrow-in-Furness
Bebington
Birchwood
Blackburn
Blackpool
Bolton & District
Bradford (Gtr
Manchester)
Burnley
Chester
Crewe
Crosby
Cumbria Rural
(Grange)
Eccles
Failsworth
Garston
Harpurhey
(Collyhurst)
Hazel Grove
Heswall
High Peak
Hindley
Hope Hospital
Hyndburn
Kendal & District

Knowsley North
(Kirkby)
Knowsley South
(Halewood)
Lancaster
Leigh & District
Liverpool City Centre
Lower Broughton
Lymm
Lytham St. Annes
Macclesfield
Manchester Central
Marple & District
Middleton
Millom & District
Morcambe &
Heysham
Northwich
Oldham District
Penrith & Eden
Radcliffe
Rochdale
Roydale
Royton
Runcorn
Sale
Skelmersdale (West
Lancs)
St Helen's
Stockport
Stretford
Swinton & Pendlebury
Walkden
Wallasey
Walton
Warrington
Whitehaven
Wigan
Winsford
Withington
Wyre Ditsrict
(Poulton-Le-Fylde)

SOUTH REGION

Aldershot
Alton

Andover
Ash
Ashford
Basingstoke
Bexhill & Rother
Bognor Regis
Bracknell
Bridport & District
Brighton & Hove
Broadstairs
Camberley
Caterham &
Warlingham
Chichester & District
Cranbrook & District
Cranleigh & District
Crawley
Dartford
Deal
Dorking
Dover
East Dorset
East Grinstead
Edenbridge &
Westerham
Epsom & Ewell
Esher & District
Fareham
Farnborough
Farnham
Faversham & District
Fleet & District
Godalming
Gosport
Gravesham
Guildford
Hailsham
Haslemere
Hastings & Rother
Havant & District
Haywards Heath
Heathlands
Horley
Horsham
Isle of Wight
(Newport)

Lancing & Sompting
 Leatherhead
 Littlehampton
 Lymington
 Maidenhead
 Maidstone
 Malling
 Medway
 New Milton & District
 Paddock Wood
 Petersfield
 Poole
 Portsmouth
 Purbeck
 Reading
 Reading Community
 WRU
 Redhill (Reigate &
 Banstead)
 Ringwood &
 Fordingbridge
 Romsey & District
 Runnymede
 Sevenoaks
 Sherborne
 Shoreham &
 Southwick
 Sittingbourne
 Southampton
 Staines (Spelthorne)
 Surrey Welfare Rights
 Unit
 Swanley WRU
 Tadley & District
 Thanet
 Tonbridge
 Tunbridge Wells
 Walton, Weybridge &
 Hersham
 Waterside
 West Berkshire
 Weymouth & Portland
 Whitehill & Bordon
 Whitstable
 Winchester
 Woking

Wokingham
 Worthing & District
 Yateley & District

WALES

Abergavenny
 Ammandford
 Bargoed & District
 Blackwood
 Brecon & District
 Caernarfon
 Caerphilly
 Cardiff City Centre
 Cardigan & District
 Carmarthen
 Chepstow
 Colwyn Bay (Conwy)
 Cowbridge & District
 Cynon Valley
 Denbighshire
 Haverfordwest
 Llanelli
 Llangollen
 Machynlleth & District
 Merthyr Tydfil
 Mold (Delyn &
 Deeside)
 Monmouth
 Montgomeryshire
 District
 Neath
 Newport
 Pembroke Dock
 Penarth
 Pontypridd
 Prestatyn
 Rhyl & District
 Ruthin & District
 Swansea
 Torfaen (Cwmbran)
 Wrexham & District

WEST REGION

Barnstaple (North
 Devon)
 Bideford
 Bristol
 Camborne (Kerrier)
 Devonport (Plymouth)
 Didcot & District
 Dorchester & District
 Exmouth
 Forest of Dean
 Frome & District
 Gloucester & District
 Gloucestershire MAS
 Henley & District
 Ilfracombe (North
 Devon)
 Kennet
 Kingswood District
 Newtown Abbot
 (Teignbridge)
 Mid Somerset
 North Cornwall
 (Bodmin)
 North East Somerset
 Oxford
 Paignton (Torbay)
 Penzance (Penwith)
 Salisbury & District
 Sedgemoor
 South Gloucester
 South Somerset
 South Hams
 (Dartmouth)
 Stroud
 Swindon and District
 Taunton & District
 Tavistock
 Teignmouth (inc
 Dawlish)
 Torquay (Torbay)
 West Wiltshire
 Witney

