

Finance Policy

Consultation Response

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Thoresen Review of Generic Financial Advice: Call for Evidence Response from National Housing Federation

1. Executive summary

- 1.1. The National Housing Federation represents some 1,300 independent, not for profit housing providers in England. Our members include Housing Associations, Co-ops, Trusts and transfer organisations. They develop and manage more than 2 million homes, provided for Affordable Rent, Supported Housing and Low Cost Home Ownership, housing about 5 million people as well as delivering a wide range of community and regeneration services.
- 1.2. The Federation welcomes the opportunity to submit evidence to Thoresen Review of Generic Financial Advice. The Federation believes that access to free, independent and impartial financial advice is vital in equipping people to engage with financial issues.
- 1.3. Housing associations are at the forefront of promoting financial inclusion through providing tenants with access to financial advice and capability training and in supporting and contributing to capacity building of third sector financial organisations. Often the only not-for-profit organisation working in deprived neighbourhoods they can provide a critical role as intermediaries in signposting to information, advice and suitable financial products.
- 1.4. Our submission highlights the relevant key points of our response to the recent HM Treasury consultation on the Governments Financial Capability Strategy. We will give an overview of why financial exclusion is a critical challenge for a sector and highlight the valuable work that is already being undertaken by housing associations in the provision of financial advice. As a housing trade body we are not in a position to comment on the detailed aspects of the review focusing on the strategic and operational challenges faced by financial advice service providers.
- 1.5. Housing associations offer their tenants access to generic financial advice and signpost to other agencies. They are well placed to act as trusted intermediaries in targeting households on low incomes and from vulnerable groups. **We hope that the development of a generic financial advice service will work with the social housing sector to harness their potential in accessing hard-to-reach groups.**
- 1.6. It is essential that **the development of generic provision of financial advice pays particular attention to the needs of low income customers** who experience greater levels of financial exclusion, yet often have no access to free and impartial financial advice. The development of generic financial advice must focus on the needs of the financially excluded in order to contribute to the promotion of financial inclusion.
- 1.7. Evidence points to the value of third sector financial advice provision for those on low incomes rather than commercial financial advisers. **Strengthening the capacity of the third sector** to deliver financial advice through long-term funding and clear government support is critical to the successful development of the generic provision of financial advice.

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2. Why financial inclusion and capability is a critical challenge for the housing association sector

2.1. The role of the social housing sector extends far beyond the homes we build, own and manage. The work our members do contributes directly to the creation and maintenance of successful, sustainable and desirable neighbourhoods offering tenants an improved quality of life, increased opportunities and improved social mobility.

2.2. Around 70% of the financially excluded are social housing tenants.¹ Research by the Federation highlights that tenants experience very high levels of exclusion in all aspects of access to financial services when compared to the rest of the population. In 2003-04:

- 25% of Housing Association tenants have financial products, including a bank account, compared to 8% of the population
- Only 9.5% of housing association tenants hold any sort of insurance cover compared to 46% of mortgage holders
- Only 22% of tenants have a savings account compared to 51% of the population²

2.3. The FSA baseline survey identifies people who live in social housing as amongst the least capable of choosing suitable financial products and planning ahead.³ Whilst many individuals on very low incomes are also very astute with their money more needs to be done to increase access to free, accessible and impartial financial advice for this group.

2.4. High levels of financial exclusion manifests itself in high levels of home credit borrowing, lack of access to financial services and considerable financial capability problems. As many as 70% of home credit customers are social housing tenants,⁴ almost 1 in 4 housing association households have no access to mainstream financial services⁵ and 70% of people receiving debt advice from CAB are social housing tenants.⁶

2.5. Housing associations are at the forefront of tackling financial exclusion, providing and supporting a range of services such as affordable loan schemes, cheap household insurance, support for opening a bank account and funding CDFIs. The sector has made significant headway in increasing tenants' access to financial services. In 2003 28% of tenants had no bank account; by 2005 this figure had dropped to 14%.⁷

3. Housing associations role in the provision of financial advice

3.1. Housing associations tackle financial exclusion as part of their commitment to improving their tenants' opportunities and quality of life, offering money

¹ Chartered Institute of Housing, *Financial Inclusion: Good Practice Briefing No 31*, November 2006

² National Housing Federation Figures 2006, based on analysis on 2003/04 Family Resource survey

³ Financial Services Authority, *Financial Capability in the UK: Establishing a Baseline*, 2006

⁴ Joseph Rowntree Foundation, *Locked in, Kept out: The extent of competition within the UK home credit industry*, 2005

⁵ National Housing Federation Figures 2006, based on analysis on 2003/04 Family Resource survey

⁶ Teresa Perchard, Policy Director, Citizens Advice Bureau, quoted in a presentation to National Housing Federation Financial Inclusion Conference, January 2007

⁷ National Housing Federation Figures 2006, based on analysis on 2003/04 and 2004/05 Family Resource survey

advice, affordable insurance, savings and loans schemes, and working together with Credit Unions and Community Development Finance Institutions to make credit available and affordable.

3.2. In addition housing associations offer a wide variety of programmes aimed delivering financial advice and improving financial capability that revolve around five key areas:

1. Acting as intermediaries signposting new and existing tenants to relevant organisations and suitable financial products
2. The provision or referral to general financial advice
3. The provision or referral to debt advice
4. The provision and support of financial capability schemes
5. The provision or referral to welfare and benefit advice

3.3. The case studies below highlight some of the inspiring work that housing associations are doing to promote access to financial advice and to contribute to the wider financial inclusion agenda. The case studies are presented around the five themes identified in paragraph 3.2.

3.4. **Signposting and financial advice:** housing associations work in the heart of communities and are in regular contact with their tenants. Offering a financial check up to tenants on sign up and developing partnerships with local agencies to offer financial advice are common practice. The case studies below highlight the valuable role that housing associations play in facilitating access to financial advice.

- *Money Advice Centre:* North Somerset Housing has established a local money advice centre in partnership with Citizens Advice, the local Credit Union and Barclays Bank plc. Situated in a shop front location within the heart of the community, the centre is run by Credit Union and Citizens Advice staff. A full range of advice and services to tackle exclusion can be delivered and talks are ongoing with a number of banks to site a free of charge cash point machine within the centre. Advisors from the centre visit the local school and talk to children about savings and money, and provide all pupils with 'piggy banks' and advice on how to open Junior Savings Accounts.

- *Identifying Financial Issues at Sign-up:* Poplar HARCA identifies tenants that are at risk from financial exclusion at the sign up interview for new tenants. They are offered free face-to-face advice by an in-house financial adviser. Where significant problems exist the case is transferred to a specialist debt counselling agency for assistance.

- *Making Connections:* Leicester Housing Association (LHA) is embarking on a pilot project called making connections which will offer LHA residents guaranteed, quick access to a range of advice and information agencies. The pilot will run in 500 households in the city in the next few months offering guided introductions to the next step careers advice agency, local adult learning organisations, advice about debt and welfare benefits and information about affordable credit. LHA is hopeful

that such a pilot could be rolled out elsewhere with Housing Associations as 'brokers' for a range of non housing services.

- *Multi-Agency Financial Inclusion Partnership:* Money Information Network Tameside (MiNT) is a multi-agency partnership, spearheaded by New Charter Housing, working to promote financial inclusion in the deprived borough of Tameside, Greater Manchester. MiNT aims to deliver a co-ordinated to improving financial literacy; providing money-management skills and by increasing access to affordable financial products. Working together to alleviate the severe burdens that financial exclusion imposes on individuals, families and households MiNT conducts activities such as information events, signposting to other agencies and developing the MINT website that provides a wealth of information on financial inclusion issues and provides contacts for all relevant organisations.

- *Home ownership advice:* Notting Hill Housing launched Home options in 2005 as an advisory service launched to help tenants, for whom past financial circumstances have prevented home ownership, with the skills and support they need to take the first step onto the property ladder. Tenants receive a detailed assessment of their finances and a financial action plan and general help and advice on managing their finances. The service enables tenants to make informed decisions about financial matters and provides support throughout the home buying process. In addition Notting Hill Housing has developed RentPlus that enables tenants to save money by paying extra when they pay their rent. Notting Hill gives tenants a reward for saving and paying by Direct Debit and a bonus payment in return for taking responsibility for minor repairs. If tenants use their savings and accumulated rewards for buying their own home they receive an extra bonus payment of 10% of the savings.

3.5. **Debt Advice:** housing associations work with tenants experiencing significant financial problems through the provision or signposting to debt advice. We believe that supporting tenants to manage and overcome their debt problems is critical to achieving sustainable communities. Housing associations have made a commitment to working towards breaking the cycle of poverty and debt.

- *Debt Advice with Affordable Loans:* Bristol Community Housing Foundation (BCHF) is leading a partnership with Bristol City Council and Bovis Homes to redevelop a run down council estate in Upper Horfield, Bristol. BCHF wanted to offer tenants an alternative to the doorstep lenders that were targeting the estate. As a solution BCHF has worked in partnership with the Purdown Credit Union to provide tenants with both access to affordable financial services and debt management advice. The scheme was the overall winner for the Guardian 2006 Public Service Awards.

- *Debt Counselling:* In April 2004 Russet Homes launched a new scheme to offer financial advice and debt counselling to its tenants by part-funding a specialist debt counsellor, who is employed by the local Citizens' Advice Bureau. The debt counsellor offers a comprehensive debt

advice service including face-to-face counselling, negotiation with creditors, drawing up of payment plans and case administration of up to 100 clients. In April 2005 over 160 tenants used the services.

3.6. Financial capability: poor financial capability is inherently linked with financial problems such as debt or holding no bank account and we believe that financial inclusion and financial capability need to be tackled hand-in-hand. The two case studies below are an example of how housing associations work towards increasing financial capability.

- *Tomorrow's Tenants:* Whitefriars Housing Group sees promoting financial capability amongst young people as key to preventing financial exclusion for future tenants. The customer involvement team provides a course in housing related matters to help prepare young people for their first tenancies. The course consists of five accredited modules, and includes a session on financial budgeting and money matters. This session is delivered by the local independent money advice centre. Word of mouth among young people in the city has been extremely effective in creating the demand for successive courses.

- *One to One Tuition:* Cambridge Housing Society provides tenants with access to literacy and numeracy tuition. To overcome the barriers that often prevent people from attending group tuition, such as childcare or lack of confidence, one to one tuition is offered in people's own homes in partnership with a local six form college.

3.7. Welfare and Benefit Advice: income maximisation, supported through ensuring that tenants are claiming the full benefits that they are entitled to can make a massive difference to levels of household income. The case studies below highlight how provision of welfare and benefit advice is crucial when supporting the financial needs of low income households.

- *Welfare Right Advisor:* Axiom Housing Association manages about 1800 properties throughout the counties of Cambridgeshire and Lincolnshire. Axiom staff help their tenants to set up bank accounts, prepare budgets and debt advice and have received in-depth training on welfare and debt advice. In addition a welfare rights advisor was appointed in April 2004 to help tenants claim entitlements and challenges decisions on behalf of clients. By February 2006 the service had generated more than £500,000 of additional benefits for their customers.

- *Advice for the elderly:* Housing 21 provide sheltered housing to over 17,000 older people in England. Housing 21 employs two welfare benefits managers who work with staff and tenants across the country to increase uptake of benefits via a number of mechanisms. They undertake: targeted benefits advocacy work with tenants via a rolling programme of 'court' (scheme) based campaigns, conduct development and delivery of front-line staff training and disseminate of information through a range of communications media including an annual benefits newsletter to tenants. Reported performance statistics show that the direct uptake work alone has raised nearly £3 million in annual income for Housing 21's tenants over the past four years.

- *Welfare Benefits Service:* Moat has three Welfare Benefits Officers who guide residents through formal processes, such as appeals and assessments. Without this continuing support, some residents would not cope with the process and others would be reluctant to come forward and exercise their rights. In the last Tax Year, 2005/06 the Welfare Benefits Service dealt with 1272 cases which resulted in a whopping £1.29 million in additional benefits that without the intervention of the Welfare Benefits Service those residents would not have accessed. Feedback to the service shows a 100% customer satisfaction. Moat's Welfare Benefits Service has been recognised by the Audit Commission as a model of good practice, not only in the provision of advocacy but also in the drive against social exclusion

3.8. A current challenge preventing the expansion of third sector work in this area is confusion about FSA regulation and concern that it will be add considerably to the regulatory burden. The housing association sector is already heavily regulated by the Housing Corporation and Audit Commission. The regulation of associations is in many instances excessive and intrusive and many of the regulatory requirements reflect past needs and service of little or no useful purpose in modern conditions. There is a concern that FSA regulation in addition to current Housing Corporation legislation is creating a disincentive for housing associations to expand their financial inclusion and capability work.

3.9. We have had anecdotal feedback from a number of members regarding the provision of financial advice that indicates a large degree of uncertainty about the type and level of advice that can be offered before requiring FSA authorisation.

3.10. The FSA needs to work closely with the third sector to inform them about activities that require FSA regulation and to ensure that existing regulation is not a hindrance to expansion of sector activity. Where appropriate the government should consider transferring regulatory responsibility to the Housing Corporation. For this reason we welcome the Government's acceptance of the Treasury Committees recommendation to consult on the exemption of Housing Associations from the FSMA requirements to register as a deposit taker.

4. The financial advice challenge: the importance of the third sector

4.1. The case studies above highlight the invaluable role that third sector organisations, such as housing associations, can play in providing access to financial advice.

4.2. Whether in partnership or in direct service provision using the right provider to deliver financial advice is crucial. Research shows that low income families often do not trust financial service providers or the government, and that to ensure successful take up of services, financial advice and information should be provided by community based organisations with well trained staff.⁸

⁸ Collard, Kempson and Dominy, *Promoting Financial Inclusion: An assessment of initiatives using a community select approach*, The Policy Press, Bristol, 2003

- 4.3. The HM Treasury consultation on the governments' financial capability strategy outlines the problems that low income households experience in lack of access to financial advice. Those in lower-income groups find it difficult to access advice and often believe that advisers may not always act in their long term interest. Those providing financial advice are also incentivised to sell to higher income consumers, effectively limiting access to parts of the market for those on lower incomes.⁹ This highlights the importance of intermediate organisations that can refer customers to independent, impartial financial advice.
- 4.4. **Any development of generic financial advice needs to consider the requirements of those on low incomes at all stages and work closely with third sector agencies that are currently in the business of delivering financial advice.**
- 4.5. Housing associations are well placed to provide or signpost to financial advice as part of their day-to-day work managing rent accounts. It is standard practice as part of a rent arrears strategy to offer a tenant access to financial and debt advice as soon as their account goes into arrears. This can prove an invaluable 'catchment' point - where people are directed towards financial advice before their debt problems spiral out of control.
- 4.6. Other programmes aimed at tackling financial inclusion or offering financial services could also provide a valuable mechanism in extending access to financial advice. For example, applicants to the social fund could be offered access to financial advice.
- 4.7. Increasing capacity of the third sector to deliver financial advice is critical to achieving sustainable provision of universal access to free, impartial and independent financial advice. Third sector organisations that provide money advice have a proven track record of successfully targeting disadvantaged, financially excluded and 'hard-to-reach' groups.¹⁰ The challenges in access to advice for those on low incomes, suspicion of the motives of the advice provider, and the problem of sales cost incentivisation can be removed by provision of advice by social businesses.
- 4.8. Recent research by the Legal Services Commission, who received £6 million from the Financial Inclusion Fund to pilot money advice outreach, demonstrates the importance of one to one money advice sessions to target hard to reach groups. This suggests that it is critical that any generic money advice service is able to refer people with significant financial problems to one to one money advice in local outreach settings.¹¹ CDFIs already contribute to providing low income consumers with access to financial advice. This is why we recommended in our response to HM Treasury consultation on the Governments financial capability strategy that the Government should consider a **charitable subsidy**, as well as the

⁹ HM Treasury, *Financial Capability: the Government's long term approach*, January 2007

¹⁰ Buck, Tam and Fisher, *Putting Money Advice Where the Need is: Evaluating the Potential for Advice Provision in Different Outreach Locations*, Legal Services Research Centre, 2007

¹¹ Buck, Tam and Fisher, *Putting Money Advice Where the Need is: Evaluating the Potential for Advice Provision in Different Outreach Locations*, Legal Services Research Centre, 2007

provision of Community Investment Tax Relief (CITR), for housing associations to become core funders of more CDFIs

- 4.9. Financial advice helps consumers plan their finances, maximise their income, manage their borrowing and choose suitable financial products. There are particular challenges in the provision of financial advice that meets the needs of low income consumers. Research by Liverpool John Moores University highlights that low income households often assume that financial advice is not relevant to their circumstance as they have little money to manage. The findings suggest that those on low incomes and the financially unconfident prefer face-to-face advice.¹²
- 4.10. The design of the generic provision of financial advice needs to consider these challenges. Advice should be free at all stages for those on low incomes. Telephone advice should be supported by the offer of face-to-face advice where the needs of the customer require more in-depth support. This could be delivered by a national network of third sector advice providers backed up with general quality assurance standards.

¹² The Co-operative Bank in association with Liverpool John Moores University and Citizens Advice Bureau, *Would you credit it? People telling stories about credit*, January 2005. Cited in Financial Services Authority, Consumer Research 43, *Advice and the best way of delivering it: Literature Survey*, August 2005