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Dear Jacqueline,

**Prudential plc response to HM Treasury  
Financial Capability: the Government's long-term approach**

Thank you for copies of the consultation document published on 15 January 2007.

Prudential plc is a financial services company with more than 20 million customers and 23,000 employees worldwide. At Prudential we believe it is essential that we continue to play our part in helping consumers become more financially capable and competent.

In the UK, our Chairman, Sir David Clementi, sits on the Financial Services Authority's (FSA) Financial Capability Steering Group which is driving the FSA's National Strategy. In addition, we provide a full-time secondee to the FSA's Workplace programme, and we participate in the FSA's Young Adults Advisory Group.

Since 2001, Prudential has been developing its own financial literacy programme in the UK, with the aim both of helping people become more informed about their financial needs, and of building the long-term capacity of community organisations to provide financial education. We work with partners, such as Citizens Advice, the Specialist Schools and Academies Trust (SSAT), NIACE and pfeg, all of whom share our vision of improving financial capability, and who are well positioned to help provide it.

We actively encourage our industry colleagues to participate in financial capability programmes. For example, we have recently welcomed Abbey Charitable Trust and Friends Provident Foundation to the Citizens Advice programme, which we have funded since 2002, called Financial Skills for Life. Prudential will continue to support this programme as key partner. Additional funding from new entrants to the programme will ensure that together we can help Citizens Advice achieve its ambition that by 2010, all bureaux will be able to offer a financial education service to their local communities.

I would also like to mention that our financial capability programme in Asia, called 'Investing in your Future', is a key differentiator, and demonstrates our commitment throughout our business.

Our Asia programme was first established in China in 2004, and has since been extended into Vietnam, India and Malaysia.

Prudential's financial contribution to financial capability is almost £1 million per annum, of which £750,000 is spent in the UK. These figures are in addition to the significant and growing contribution of our proportion of the FSA levy that supports financial capability.

## Scope

### 1. The Government proposes to review the role of financial capability in:

- **services for children, young people and families;**
- **the schools curriculum;**
- **adult education, particularly adult basic skills;**
- **information for parents and carers;**
- **retirement planning, including the introduction of personal accounts and the annuities market; and**
- **the benefits system, particularly for jobseekers and social fund load applicants.**

**Do these capture the programmes which can best help meet the long term challenges identified in Chapter 4, or are there any missing policies or programmes which the Government should consider?**

1.1 We share the view that financial capability is a skill that needs to be developed amongst many groups in our society if more people are to make the right financial decisions and ultimately improve their overall financial well-being. Improved financial capability would particularly benefit low-income families and groups who traditionally seek financial assistance only when they are already heavily indebted.

After considerable analysis and debate, the FSA Financial Capability Steering Group agreed on seven key areas for attention. The importance and value of this prioritisation should not be ignored.

1.2 We feel that the seven FSA financial capability work streams should be first embedded and then reviewed for effectiveness and reach, before any new service is created.

### Financial capability in schools

1.3 Prudential believes that to achieve financial competency in adulthood, there has to be greater emphasis on financial capability at school. A key concern is how to ensure that high-quality provision is available in all schools. Pfeg's aim is to ensure that there is a planned and coherent programme of study and yet it is still the case that provision is patchy. Practical measures should be put in place to monitor the standards of provision and help target additional support.

Prudential has worked with the Specialist Schools and Academies Trust and has funded the development of a 25-hour financial capability interactive learning resource in the form of a CD-rom, called '*Adding Up To A Lifetime*'. It can be used across the curriculum in England. The module was rolled out to 3,200 maintained schools in England in May 2006. It takes schoolchildren through all the major life stages: from life as a student to retirement, and demonstrates very clearly how choices you make about your finances throughout your life have a direct effect on your future prosperity. The resource achieved the pfeg Quality Mark accreditation in 2006.

The resource originated as an idea within Prudential and has been developed by SSAT. The material has been written, designed and developed by teachers for teachers and aims to enhance financial literacy skills through learning activities. The wealth of materials provided in the resource serve to engage and motivate young people of all abilities. They support the aims of the Government's 'Every Child Matters' agenda, including the area of economic well-being. The resource offers schools the flexibility of personalising learning across a wide range of subject areas and curriculum models.

We would welcome the active support of the DfES in raising awareness of this schools module.

- 1.4 Northern Irish education officials at the Council for the Curriculum Examinations and Assessment (CCEA) have asked for the CD-rom to be adapted for use within their new curriculum and we have had an overwhelmingly positive response to the module in Scotland through the Learning and Teaching Scotland's Scottish Centre for Financial Education. We demonstrated the module to them in October 2006, through a workshop for teachers and local authorities, and some schools have already piloted the English version of the module, rather than wait for the adapted module. They have asked for some adaptation (e.g. characters' accents) to make it more appropriate for Scotland. Prudential and SSAT are now undertaking this work and the module will be ready to roll out in the autumn.
- 1.5 It has been interesting to see the role that local authorities play in Scotland in helping to get the resource directly to schools and their ability to monitor whether it is being used. The curriculum in Scotland also lends itself to flexibility in how the subject is taught. We are keen to see the resource used in different parts of the curriculum and for financial capability to be an essential part of a wider curriculum (ie suitable for children of all ability), in addition to its role as part of functional maths within GCSE mathematics, which we fully support.
- 1.6 We warmly welcome the progress that has been made over the last few months, ranging from the roll-out of pfeg's Learning Money Matters, to the Qualifications and Curriculum Authority's (QCA) recently proposed revisions to the national curriculum, and the new references to financial capability within these revisions. However, our experience of trying to roll out our resource to English secondary schools suggests to us that there are no comparable easy mechanisms for quickly and efficiently supporting teachers and schools with resources and the back-up they need to teach the subject effectively. This is something that should be looked at further.

**2. The concept of financial capability can extend beyond knowledge of financial products and services. For example, it can encompass understanding tax and benefits, welfare issues, or skills in shopping around for utility or mobile phone providers. To what extent should the Government adopt part or all of a wider definition of financial capability?**

2.1 We accept the wider definition of financial capability which is classed by the FSA as being able to manage money, keep track of personal finances, plan ahead, choose financial products and stay informed about financial matters.

2.2 Prudential is the key partner in the Citizens Advice 'Financial Skills for Life' programme which we have supported since 2002. This supports personal financial education work by over 80 Citizens Advice Bureaux across England and Wales. Nine bureaux were funded as pilot projects to test different methods of financial education, by working with adults in the community. Each worked with a variety of target groups, with a focus on the 'hard to reach', and in conjunction with local partners. Four topics were common to all of the pilots: budgeting, saving, credit and borrowing, and managing debt. These provided the 'core' of financial education work. Financial education sat well alongside money advice and provided a complementary service.

2.3 Given our views expressed in 1.1, there is logic in extending the definition of financial capability to encompass benefits and welfare issues. A more financially aware society would reduce welfare costs to the Government.

## **Building Evidence**

**3. Chapter 3 sets out a number of current financial capability initiatives. Which programmes or initiatives – delivered by Government, industry or the third sector – have been particularly effective in raising levels of financial capability? What can the Government learn from these, particularly for delivering education, information or advice to people who are most vulnerable to the consequences of poor financial skills?**

3.1 Prudential has long recognised the social and economic benefits of improving financial literacy levels. Since 2001 we have invested substantial sums and expertise in developing initiatives with a range of partners who share our vision of improving financial capability and who are well positioned to help provide it. In the UK we have developed partnerships with Citizens Advice, SSAT, pfeg and NIACE<sup>1</sup> to enable these organisations to develop their capacity to deliver financial literacy programmes to audiences including low income groups, socially disadvantaged adults and school children.

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<sup>1</sup> <http://www.prudential.co.uk/prudential-plc/cr/>

- 3.2 Prudential's own experiences in promoting financial literacy have demonstrated the importance of fully involving community and voluntary organisations. In 2006, Citizens Advice undertook an independent evaluation of projects promoted by the Financial Skills for Life programme and concluded that bureaux had achieved real and sustained outcomes with 'hard to reach' groups. Individuals had significantly improved their ability to budget and save<sup>2</sup>.
- 3.3 The evaluation highlighted a number of key lessons. Bureaux found that it was effective to make training tangible and relevant to participants' own situations, enabling beneficiaries to put information into practice within the lifetime of the project and that the key to effective delivery was to offer structured training with enough flexibility to cater for the needs of individual target groups.
- 3.4 Since completion and evaluation of the original pilot work in this area, we are very pleased that in 2007, the Bracknell & District Citizens Advice Bureau, one of the original bureaux to pilot the first phase of the Financial Skills for Life programme, was awarded £162,114 of additional funding from the Big Lottery Fund to continue with its Money Talks programme.
- 3.5 Prudential supports the Citizens Advice vision that, by 2010, all of its bureaux should be able to offer a financial education service in their local communities. The Financial Skills for Life programme is central to that ambition, and to achieving a step change in financial understanding amongst those groups that need to make the most of their money.
- 3.6 Prudential has been supporting SSAT since October 2004, to develop 'Adding up to a Lifetime', the interactive financial capability schools resource, to support the teaching of personal financial education to young people aged 13-16. (see section 1.4 above).
- 3.7 Signposting to information and advice about personal finance offered by third parties/charities should be included in a fully joined-up approach, in conjunction with Government services, including Job Centre Plus.

#### **4 Chapter 3 outlines the findings of the FSA's baseline survey into financial capability. What other information might policy makers need to inform further work in this area?**

- 4.1 We must put in place a framework that allows us to measure, at regular intervals, how financial literacy levels are improving. The FSA's Baseline Survey, which is to be undertaken every 3 – 4 years, will be a useful tool in monitoring the impact of the strategy - as well as providing the evidence basis for future financial capability policy. The Baseline Survey should be repeated every year as this would give useful trend data over a shorter period as opposed to only taking a snapshot every 3 or 4 years where it will take a decade or more before any trends can be identified.
- 4.2 However, an increase in financial awareness is not an end in itself. A more tangible indicator of success will be the change in behaviour that this facilitates, which should be evident in

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<sup>2</sup> [http://www.citizensadvice.org.uk/index/publications/financial\\_capability\\_publications.htm](http://www.citizensadvice.org.uk/index/publications/financial_capability_publications.htm)

increased levels of saving and decreased levels of personal debt, consistent with the likely retirement income and precautionary saving needs of the population.

- 4.3 We believe that it is important to monitor the changes in behaviour and savings levels within specific target groups – such as young people, women and ethnic minorities – and at different life stages, to see whether this strategy is really making a difference. An overall increase in savings levels, while welcome, would not in itself be representative of a successful strategy, as the savings ratio is strongly associated with the economic cycle, and is blind to the distribution of savings.
- 4.4 Government must also consider the "protection gap" as well as the "savings gap". A number of studies suggest that millions of consumers lack adequate life insurance protection. The Government will need to understand why consumers are failing to adequately protect themselves against critical illness, unemployment and other changes in their financial situations.
- 4.5 We would also like to see some rigorous evaluation of existing provision. In particular it would be useful for policymakers to understand what progress the FSA programme has made before rolling out additional provision as part of the national strategy or consider the value of enhancing the FSA programme.

## Coordination

### **5 Chapter 3 notes that there are many financial capability initiatives, often operating locally and with short term funding. Is a central coordinating function needed in addition to the work of the National Strategy and the proposed Ministerial group? If so, what should it include?**

- 5.1 The FSA has a statutory responsibility to promote public understanding of the financial system and is leading the national strategy for financial capability. We believe that the FSA should act as the umbrella organisation for financial capability initiatives, playing a coordinating role where appropriate, and thereby preventing overlaps by competing organisations. Any new organisation overseeing this proposal should therefore operate within this framework. However, we would like to stress our considered preference for the FSA to continue to oversee and coordinate financial capability.

## Generic Advice

### **6 Chapter 4 highlights the gap in availability of generic advice, especially for those who are not currently well served by the advice market. The Government welcomes views to inform its work alongside the Thoresen feasibility study, which will examine the practicalities of delivery. Comments would be welcome on, for example, the boundary of generic and regulated advice, the relationship with current sources of advice, and the development of funding models that recognise the benefits to all stakeholders.**

- 6.1 The FSA's definition is adequate for a service that does not involve any specific product recommendation, and is consistent with current generic advice services, including our own 'Plan from the Pru' generic material. There are already a number of organisations delivering generic financial advice, through a number of models, including face-to-face. The Citizens Advice model, (described in sections 2.2, 3.2 - 3.5 above) is a highly effective model that is growing.
- 6.2 We believe that there are long-term gains to be had from financial education for consumers and providers. The main benefits would come from having a consumer base with a greater understanding of their financial needs and an increased awareness of the need to better manage debt, to save and to have appropriate protection. Better informed consumers are more likely to buy appropriate products, creating the potential for increased sustained sales for industry and, in turn, lower prices for consumers.
- 6.3 The FSA has noted that consumer weakness has contributed to greater regulation. With better-informed consumers the cost of regulation could be reduced resulting in better value products. It should be noted, however, that regulation exists to protect consumers. Even with a successful financial capability strategy there is likely to remain a large number of consumers who, unless there is a change in what the FSA deems to be the appropriate levels of consumer protection, will continue to need regulatory protection at a level similar to that currently provided. Therefore we believe there is a need for a more detailed discussion as to what the benefits of financial capability might be in terms of reduced regulation and when and how they might materialise.
- 6.4 A gap analysis of existing generic advice services is essential. If any gaps are identified in the provision, then any subsequent decision to develop a new national resource should then be conditional upon the proposal being subject to a thorough independent cost benefit analysis.
- 6.5 The costs must not fall on any one party alone. The principal beneficiaries – consumers (many of whom will experience an improvement in their financial well-being) and the state (less people should fall into state benefits because they have mismanaged their money and there should be increased private pension provision) – should jointly meet the costs of this initiative.
- 6.6 The introduction of Personal Accounts in 2012 will give rise to the need for an advice service for Personal Account Holders, particularly on the question of whether they should 'opt-out', and what investment choices they should make. It is certain therefore that a major aspect of any new body's work will be to direct people to Personal Accounts. Given HMG's preference for the unbranded model, there seems little justification for industry funding by cross-subsidy or any other means.
- 6.7 It has been suggested that telephony will play a central role in the final delivery model for Personal Accounts. Although this might be appropriate for some consumers, we believe there will be significant challenges for a telephone-based Personal Accounts/generic advice service. By definition, Personal Account membership will consist largely of those who are relatively unfamiliar with retirement saving products, and with generic advice in the broader sense,

people are likely to want guidance on existing financial products which will be very difficult for a telephonist - who does not have sight of relevant policy documents and so on – to provide.

We are also not convinced that people in some income groups, unused to seeking this kind of financial advice, will proactively telephone an advice line for help.

6.8 Prudential already spends nearly £750,000 per annum in the UK alone, promoting financial capability (£1 million per annum internationally). This is in addition to the considerable sum contained in the Prudential's contribution to the FSA levy that supports Financial Capability. The FSA's funding of financial capability has almost doubled in the year 2007/8.

In summary, we are firmly of the belief that no gap analysis has been carried out to establish need. The FSA's Baseline survey is a useful benchmark, but needs to be repeated annually to be a meaningful measurement.

A cost/benefit analysis of the current FSA financial capability programme and its seven priority areas has not been initiated. This is essential as we do not wish to see a duplication of programmes that work or the creation of new, unnecessary services to the detriment of existing successful initiatives.

The industry is already doing its fair share - in our case through the Prudential financial capability programme - to support the Government and the FSA to financially educate consumers.

We believe that the FSA should continue to oversee and coordinate financial capability throughout the UK.

Prudential believes that to achieve financial competency in adulthood, there has to be greater emphasis on financial capability at school.

With regard to generic advice, we will be responding in greater detail to the Thoresen Review of Generic Financial Advice, by 27 April 2007. Personal Accounts will need some form of advisory service, and we are open-minded on whether there is a need for other issues such as debt management, but to date no gap or cost benefit analysis has been undertaken.

Please do not hesitate to contact me if you would like further information or clarification on any of the points raised in this response to your consultation.

Yours sincerely

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