

Financial Capability: the Government's long-term approach

summary of responses

July 2007



HM TREASURY



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the Government's
long-term approach**
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FINANCIAL CAPABILITY: SUMMARY OF CONSULTATION RESPONSES

OVERVIEW

1.1 There were a total of 41 responses to the consultation on the Government's long-term approach for achieving the vision of more financially capable consumers. The responses were split fairly evenly between the third sector (22 responses) and the financial services industry (19 responses). A list of the respondents is attached.

1.2 Respondents were unanimous in welcoming the document, with strong support for the Government to play a significant role in the financial capability agenda. All recognised that improvements in financial capability could yield benefits for a range of stakeholders.

1.3 The document asked six questions on a range of issues, from assessing the current range of programmes and initiatives through to considering what a future structure for delivering financial capability could look like and the role of generic financial advice. The following overview of comments received provides a short representative summary of the views of respondents:

- Government financial capability programmes should cover a broad spectrum of the population and at different life stages. However, a number of respondents highlighted a lack of provision for older people, particularly those who had already retired, and would not be picked up by current financial capability programmes. A number also mentioned the further potential of the workplace as a particularly good place to engage consumers. Education at school was considered essential, with support for financial capability to be included in the core curriculum.
- All respondents wanted a wide definition of financial capability, including tax and benefits for example, and some raised the need for the scope to include a general understanding of risk.
- A number of respondents provided descriptions of their work in financial capability. Some respondents referred to organisations whose work they considered particularly effective. The Government could draw lessons from existing programmes on how to make information relevant to motivate consumers, building trust, and using the media to get the message across. There was a view that more research was required on why individuals sometimes fail to engage with financial issues, and what holds them back.
- The 2006 FSA baseline survey was considered by most respondents to be a substantial piece of work providing policy-makers with a comprehensive analysis. However, a large number of respondents also thought it should be supplemented by further research, particularly in understanding behaviour by consumers – why they make the decisions they do. There was also support for more regular measurement and monitoring of financial capability, perhaps on an annual basis.
- It was unanimous that a central co-ordination function is needed for taking a lead, developing strategy, setting targets, measuring progress, avoiding duplication, preventing gaps, disseminating best practice and delivery. And

there was strong support for a new body with varying views on whether this should be independent, or under either the FSA or the Government.

- There was also a lot of support for a new generic financial advice resource, though there were a few respondents who were more sceptical. All wanted the boundary between regulated and non-regulated advice kept and there was support for a 'referral' approach, where consumers could be channelled towards more specialist advice if required. A core single brand was a popular idea, many also mentioned the need for trained advisers and the majority of respondents thought funding for any new approach should be split equally between the public and private sector.

1.4 Excerpts from responses are set out in Chapter 2.

GOVERNMENT RESPONSE

1.5 The Government is grateful for the wide range of responses and for the support given by respondents. The Government will consider responses alongside the recommendations of Otto Thoresen's feasibility study on a national approach to generic financial advice. An action plan setting out how the Government will take forward the financial capability agenda will be published early next year.

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CONSULTATION QUESTIONS AND EXCERPTS FROM RESPONSES

Scope – Question one.

The Government proposes to review the role of financial capability in services for children, young people and families; the schools curriculum; adult education; information for parents and carers; retirement planning and the benefits system. Do these capture the programmes which can best meet the long-term challenges or are there any missing policies or programmes which should be considered?

Third Sector and NDPBs

- We feel that people who are already retired are vulnerable to the consequences of poor financial decisions, so are disappointed that the listed programmes do not include services for older people. Meeting the needs of older people might also help to improve the financial capability of younger family members.
- We are disappointed that there is no mention of older people. Ideally they should be included under adult education but current provision is poorly designed in terms of specific needs for older people such as equity release schemes or managing finances on bereavement.
- It would be useful to extend the list to include the elderly, migrant workers, those with learning difficulties, ex-offenders, the homeless and people affected by domestic violence.
- We agree with the listed programmes but consider there should be two further specific areas (1) those moving back into mainstream society following prison and (2) individuals in receipt of social care.
- We consider there is scope for embedding financial literacy within literacy, language and numeracy as part of the skills for life work and also for embedding literacy, language and numeracy within financial education provision. However, we are concerned that financial literacy is only seen as being linked to numeracy. We consider there is scope for mainstreaming financial literacy through a number of existing government initiatives eg City Strategies, Offender Education and Every Child Matters work. Financial literacy could make a large contribution to the 'economic well-being' outcome of the Every Child Matters work.
- We welcome the proposed revisions to personal, social and health education to create a programme of study for personal well-being and for economic well-being. But we regret to see that it is still proposed that PSHEE should be a non-statutory subject even though most of the other areas of it are (ie sex, careers and work related learning). We believe the financial capability element should be made statutory in order to achieve the Government's stated aim. Adding financial capability into the programme of several subjects will always be piecemeal, what is needed is a compulsory core subject of personal skills and development that includes financial capability for all learners.

- The programmes should be delivered in an integrated way, each stage building upon the next. The issue of financial capability requires a “mass market” solution through education and generic advice in order to reach the wider population and in particular those on low to median incomes ie those independent of state benefits but not profitable enough to be of interest to the industry. The Government needs to consider this group as well as the financially excluded.
- We believe an understanding of the benefits system should be included within the Government’s scope plus the signposting to agencies that can assist in the navigation of what is a very complex system.
- There would be merit in assessing consumers’ appreciation and awareness of the risks and shocks they face in life and whether they understand the need to protect themselves against the risk of losing income or suffering health shocks.

Financial services industry and other private sector

- It is important that the programmes cover the broad spectrum of the population, and while life stages and certain groups might be targeted as priority, it should not be at the expense of those outside the target groups. Workplace-based initiatives should be recognised more explicitly.
- Education is important in the medium and long-term but it does little for those who have passed through the system, so there should be more emphasis around the workplace.
- We see a need for a dedicated financial education agency with resources and funding. We are also concerned that too much is voluntary based, this risks funds not being focused on priorities and funds not being even or strategically targeted.
- Ensuring school children are properly taught financial capability skills could make a huge difference over one generation. But while teachers have the option of choosing between teaching financial literacy or not and whilst it is not assessed, it is hard to see how the Govt can move from excellent pilot schemes to complete roll-out across every UK school. Therefore a commitment from schools is needed to improve delivery but this will only come about if the subject is core to the curriculum.
- We consider there must be some basic level of qualification achieved in financial education to be able to teach it.
- We urge the Government to give the Child Trust Fund (CTF) a category within the list, and make it a key objective given that the CTF carries with it the means to deliver financial capability.
- We feel the FSA workstreams should be embedded and reviewed for effectiveness before any new service is created.

Scope - Question two

Q2: 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?

Third Sector and NDPBs

- We believe there should be a broad definition to include tax and benefits, paying for care and shopping around for key items of expenditure. We would like to see any initiative encouraging people to make wills, compile asset lists and plan ahead. We feel this would be valuable for people who go on to take advice, and for financial advisers who point to the costs of compiling the 'factfind' document summarising individuals' existing financial position, in compliance with FSA rules.
- It is not possible to define financial capability in the narrow sense. People will need to be empowered to have a basic understanding of the state pension and benefits system in order to make the correct decision on whether to remain opted in to Personal Accounts. Furthermore, changes in the way we manage money (technology changes) is making money management more rather than less difficult for many older people.
- The Government should promote a wider concept of personal financial skills. We believe it should seek to relate the skills and knowledge associated with earning money with the skills needed for saving and consumption. It should also acknowledge the range of contexts in which people exercise commercial skills and judgement. It should also take account of the fact that employers of all kinds are increasingly requiring their employees to exercise more commercial judgements in the workplace than was the case in the past.
- We consider the concept should encompass desirable attitudes such as financial acumen and skills as well as appropriate knowledge. Also that in addition to essential personal money management it should include the civic sphere of taxation and public money and financial capability for both business and enterprise.
- Financial capability should be about effective money management due to the increasing numbers of people suffering debt crises.
- Financial capability is an essential element of tackling wider social exclusion and combating poverty, helping to ensure that the poor don't pay more for essential goods and services. Therefore there is a strong case for adopting a wide definition.

Financial Services Industry and other private sector

- There would be merit in using a wider definition to include tax and benefits and the interaction with pensions and savings for planning ahead for retirement. An initial focus should be on helping people understand and fulfil their financial needs.

- We urge the Government to concentrate on the widest possible definition, not to begin with tax and welfare issues but start at the stage of encouraging people to sit down and think about life stages, think about why planning ahead is important and working out how to benefit from opportunities by having access to and embracing financial planning.
- Financial capability should focus on skills development. Creating an understanding of how decisions can be made effectively will allow people to transfer their knowledge to other areas.
- It is important to assess financial capability on outcomes. The Government should try to monitor the effect of any financial capability initiative in terms of the changing numbers of the target group who pay the right levels of tax, or who are claiming the right benefits over time.
- The Government should first focus on improving core knowledge and skills regarding financial products and services, to ensure their impact is maximised by avoiding resources and messages being stretched too thinly. We would welcome a phased approach which seeks to address the wider lifestyle issues after the initial activity on financial capability is embedded.

Building evidence – Question three

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?

Third Sector and NDPBs

- Good examples are the AXA Avenue programme and Pfeg case studies. To date there have been limited evaluations, so we would suggest the Govt looks internationally, for example at the Saver Plus scheme in Australia, which is aimed at helping low income families save. Also the Dream Demonstration programme in the US which found that Individual Development Accounts (asset building) with financial education programmes were positively correlated, with savings around \$1.3 a month more per hour of education they received, though the effect tailed after 8-10 hours of education. Also the Sorted programme in New Zealand. We also recommend “Personal Finance and Rush to Competence: Financial Literacy Education” and “Fannie Mae Foundation and Goodbye to Complacency Financial Literacy Education”, both in the US. Finally the new research carried out by the New Philanthropy Capital on how charities and social enterprises in the UK are working to address financial inclusion.
- As initiatives are still at an early stage of implementation it constrains data on their effectiveness. However, examples such as National Debtline have been positive in relation to the impact of advice both on clients’ health and well-being and on their ability to maintain debt repayment arrangements and avoid further debt going forward.
- We would recommend an initiative called ‘MoneyHelp’ which was piloted in Edinburgh and Calderdale, delivering outreach sessions face-to-face in the

community with specific target profiles for the hardest to reach. The pilot has been expanded across 7 areas in England, Wales and Scotland focusing on the two strands of community outreach and in-school provision.

- ABCUL produces a range of financial literacy leaflets free to their members and communities. Since 2002 over 1.2 million have been distributed and since 2006 they have included saving, budgeting and dealing with debt. Anecdotal evidence suggests that these leaflets are very popular demonstrated by the number of repeat orders and their use in information packs.
- The 'Financial Skills for Life' programme which works with mainly socially excluded groups was independently evaluated and evidence showed genuine outcomes in terms of improved budgeting and borrowing performance by people who attended financial capability sessions.
- The Young Scot InfoLine - a phone and web-based information service for young people aged 16-26. Young Scot's evaluation of their system found that young people made calls primarily between 12 noon and 8 pm, and that a package of communication mechanisms worked best - telephone, web, instant messaging and email.
- Research suggests promoting anything 'financial' or 'educational' is likely to be difficult. But if people can be encouraged to try what is available most people benefit. The implication is that significant promotion and very careful branding is needed for any initiative ie New Zealand's Sorted website.
- Central to participation with the financial services market is trust and confidence. Research has shown that consumers were absenting themselves from making pension provision because of previous failings of private pensions.

Financial services industry and other private sector

- The Face2Face with Finance education programme helps young people aged 11-18 improve their financial capability. It provides a range of curriculum linked materials for use in secondary schools. Conclusions after 13 years show: firstly that financial education needs to be tailored and secondly success is based on three factors – space in the curriculum, good quality teaching resources and confident teachers.
- The Citizens Advice Bureau Financial Skills for Life programme where individuals have significantly improved their ability to budget and save. The evaluation highlighted that it was more effective to make training tangible and relevant to participants' own situations so beneficiaries could put information into practice and that structured training should be flexible enough to cater for the needs of individual target groups.
- The Barclays Horizons programme, which by end 2006 had helped over 30,000 lone parents and their children with support ranging from financial literacy training, to debt advice and to actual financial support towards education related costs. Also the NCH Financial Futures programme which is helping excluded groups across the UK improve their money management skills to help secure financial stability and the successful pilot between the

Citizens Advice Bureau and IFAs which focused on generic financial advice on “lower” income groups incorporating work on savings products like the Child Trust Fund and pensions.

- We believe the biggest difference is made where people receive trusted advice eg The Pensions Advisory Service, whereas the provision of information eg pension forecasts, appear to have limited impact.
- A focus on asset ownership by the Government would be a sound social policy that will deliver very desirable policy outcomes. The Government has introduced a number of very good initiatives such as the ISA, Child Trust Fund and Savings Gateway and there has been success in sustaining and creating asset ownership across the socio-economic spectrum. There are a number of financial capability programmes delivering high quality education across the public, private and voluntary sectors but there is a need to enhance and expand the links between them.
- We urge the Government to review delivery mechanisms at the same time as considering financial capability initiatives so they are used to maximum effect. Also the greater use of popular ways of getting information ie television could be helpful. We believe motivation is the key emotion needed to encourage individuals to engage in financial planning. We recommend the Government undertakes a major piece of research to establish: why people do not plan ahead; what holds them back; what would put planning their finances nearer the centre of their radar screen; what help and support would be most useful; what do people think of banks, financial companies and financial advisers and who do people trust.
- The Government should look beyond financial capability initiatives for evidence of how consumer education programmes can be effective in changing behaviour ie campaigns like healthy eating and smoking which have been aimed at changing public behaviour.

Building evidence – Question four

On the Financial Services Authority (FSA) baseline survey into financial capability, what other information might policy makers need to inform further work in this area?

Third Sector and NDPBs

- Further work needs to be done to produce a model of what a ‘financially capable’ consumer would look like – and perhaps to build a range of profiles of financial capability. There is value in considering factors that drive consumers’ decision-making process and further work on consumer psychology and behavioural economics. A sophisticated model of financial capability would enable initiatives to be better targeted and more readily evaluated.
- The FSA resource should be enriched by other sources of information because the baseline survey is only published every four years, so it is difficult to monitor changes and because the survey’s strength is in monitoring changes in behaviour, perceptions and skills as reported by individuals themselves. Financial capability should be monitored via a

basket of indicators – the baseline survey plus other sources of data which can be monitored annually ie levels of knowledge regarding financial products, attitudes to saving and debt (Wealth and Assets Survey) and indirect outcome measures eg reduction in credit card debt, mortgage and secured loan arrears etc.

- The baseline survey should be complemented by behavioural analysis which seeks to understand how consumers make decisions in real life situations and by studies which cross-check consumers' ownership of financial products. Also of consumers understanding of risks and rewards.
- The baseline survey is long-term and needs to be complemented by more medium term (2-5 year) evidence of the impact of financial capability work. It would be desirable if all leading players in the financial capability area could collect and share evidence on broadly comparable bases. Ideally this should include data which would allow a better and more confident understanding of: (a) what the issues are on which particular client groups most need help (b) what beneficial changes have been achieved by clients and are they sustained (c) what are the wider and quantifiable social and financial benefits that have been secured and (d) honest assessments of what has failed as well as the successes, to allow better understanding of what strategies should be deployed for accessing hard to reach groups.
- The National Foundation for Educational Research will complete a substantial evaluation of Learning Money Matters in July 2009. This will provide detailed evidence on what works best in secondary schools to achieve planned and coherent programmes of personal finance education.
- There remains a need to better understand the financial capability of older people particularly the over 70s. The baseline survey hinted at certain issues but the data would benefit from further analysis.

Financial services industry and other private sector

- We need a framework in place that allows measurement at regular intervals to show how financial literacy levels are improving. The FSA baseline survey should be repeated every year to give useful trend data over a shorter period rather than every 3-4 years where it will take a decade before any trends will be identified. There is a need to monitor changes in behaviour and savings levels within specific target groups eg young people, women and ethnic minorities and at different life stages to see if the strategy is making a difference. The Government should also consider the "protection gap" as millions of consumers lack adequate insurance protection, so need to know whether individuals are not protecting themselves against illness, unemployment etc.
- We believe some of the answers in the baseline survey resulted from a lack of understanding over terms such as "equity". So we consider there are two lessons for the future (a) financial capability is also based on having the presence of mind to ask for clarification if you need it when talking to experts and (b) the industry and the FSA must drop the jargon. We are concerned with the FSA's expectations in the survey of the scope and willingness of individuals (a) to shop around and read the small print before they buy and (b) to use the services of a financial adviser, are too high. This

has implications for the judgement made about levels of financial capability, particularly, under the Choosing Products heading. A future survey could down-play this finding relative to measures of achievement ie examples of wise planning for certain groups.

- To supplement the baseline survey we think it should take into account the various studies that have been done on Behavioural Economics. The way people behave in practice needs to be contrasted with what an economically rational person might do. The provision of information might give a person some of the data they need in order to be able to take personal responsibility, it does not however, provide them with the means by which they can fulfil that responsibility. Perfect information is not the answer to imperfect human behaviour.
- We think the survey should be supplemented by research into how best to encourage consumers to act, focusing particularly on behavioural aspects and how people are motivated, this should include research on how to design public information to present risk in a readily-comprehensible form and create tools to encourage people to think about risk in a way which aids decision-making rather than acting as a deterrent.
- We would support more work on individuals understanding of the relationship between risk and reward in personal finance for the under 30s.

Coordination – Question five

There are many financial capability initiatives, often operating locally and with short-term funding. Is a central co-ordination function needed in addition to the work of the National Strategy and the proposed Ministerial Group? If so what should it include?

Third Sector and NDPBs

- The importance and multi-dimensional nature of the subject means that there is a case for establishing a new organisation to co-ordinate the efforts being made by so many players.
- We believe that the promotion of financial capability is a major national challenge requiring not just greater co-ordination but a major proactive campaign to raise public awareness and push the agenda forward. Delivering this dual role will require more than a body with a co-ordinating function, but rather a high profile and accountable body with a clear remit to promote the financial health of the nation – a ‘Financial Capability Commission’. The body could also co-ordinate the financial inclusion strategy alongside financial capability.
- We support the need for central co-ordination of a national approach though specific delivery may be through a variety of vehicles. The FSA kick started the process but whether in the long-term it is the best vehicle to continue this is open to question. A separate body may best be able to maintain focus in the future. As a long-term project, we support the idea of a financial capability champion at ministerial level, so would like to see the Economic Secretary become the ministerial position that champions

financial capability in the future with a significant portfolio with this as a core objective.

- We would welcome a central capacity to enhance the ability of providers to share best practice, map existing and planned resources and projects and identify and establish effective delivery and funding partnerships. It should have a strong research and information dissemination capability and take account of existing FSA and Treasury groups.
- Effective central co-ordination is vital to the success of a long-term approach to building financial capability and it is important that the co-ordination function is sustained. This function might best be met by a developed National Strategy.
- We believe that a central co-ordinating body is needed, but that it should work with existing providers as far as possible and delivery should be through independent bodies. Significant public funding is needed and the financial services industry should also contribute to funding, but this money should be ring-fenced to ensure independence.

Financial services industry and other private sector

- A new organisation is needed to take the lead on co-ordinating financial capability work. It would develop strategy, set targets, measure progress and ensure resources are being used to maximum effect. A new organisation should bring together industry, voluntary sector, Government departments and regulators and should be responsible to the Treasury.
- To co-ordinate the many financial capability initiatives there needs to be a system of checking that the demand-side, not just the supply-side is addressed. We urge that the Government has a co-ordinating role since the agencies involved currently do not have the experience or the power. To address the issue of culture change, the Government should set up a body to control strategy and to oversee the 'net-effect' on consumers.
- We think there should be a permanent "Financial Education Agency" which would centralise the currently dissipated efforts of government departments. We envisage it falling under the FSA, have a ring-fenced budget and a separate management structure to the FSA though report to the main FSA board on progress and be accountable to Parliament. Funding should come from central government budgets, industry levy, unclaimed assets and the lottery. We anticipate the Agency would have the focus and drive to develop strategies for both in-school learning and community projects and ensure they are properly prioritised and co-ordinated.
- Better co-ordination is vital. Initiatives should be co-ordinated via the FSA as the body for consumer education and protection and the Treasury should be the lead department overseeing work in the public sector. Formal apparatus will need to be set up to monitor the combined operations of the two groups and report to the Chancellor.
- A central co-ordination function would be useful to maximise the benefits of 'cross-fertilisation' and ensure the benefits delivered across the whole spectrum of financial capability projects are greater than the sum of its parts. We need a national campaign to raise awareness of the need to sort

out your own finances and where appropriate save for the short, medium and long term. Also a strong call to action and clear sign-posting to specific sources of guidance so individuals can easily progress to the next stage.

Generic advice – Question six

On the availability of generic advice, 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 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.

Third Sector and NDPBs

- We believe the absence of a national Generic Financial Advice (GFA) service represents a considerable gap in the Government's financial capability strategy. We envisage three closely linked areas of activity (1) preventative (financial education and skills development) (2) primary care (information, advice and referral) and (3) secondary care (crisis and specialist services). A GFA service should be promoted as the first port of call for individuals with general questions regarding their finances. The service should also be seen as a gateway to other types of more specific advice. It should not replace other advice services but instead need a range of strong referral relationships with them. The Government and the financial services industry should jointly fund the service as both stand to gain financially from more financially capable consumers. Funding should be via some form of public-private partnership. We also suggest that direct advertising be used alongside other methods of raising awareness and a common brand and minimum standards need to be established. We believe GFA should be delivered by an independent commission, and urge the Government to consider how the current framework might be adapted and a new body created to meet this need.
- We think any GFA should set out information tailored to the individual circumstances, options for action with pros and cons, giving advice on eg comparison sites and information of further advice and how best to access it. This is a model consistent with good practice in advice giving, where the decision on further action and possible product purchase rests with the client. The service needs careful consideration over funding to ensure independence of government and the industry, though both should contribute to its establishment. A possible funding model is the Financial Inclusion Fund.
- We believe that any new generic advice service will need to fit clearly with and support existing provision. There would need to be a national hub which would signpost people on to face-to-face and more specific services they may require. In launching Personal Accounts we believe it is a government obligation to fund advice. However, more people will be positively engaging with products than before, so it seems only fair to expect a contribution from the industry. One funding concept which could be examined is the 'energy efficiency contribution' system.

- We envisage that the network would consist of a wide range of access points. These can be grouped in three blocks (1) community based (2) organisational based and (3) participating mainstream retail financial sector based institutions. The first two groups should meld effectively with the private sector channels to provide an extensive network covering the whole range of consumers financial advice needs and as they change throughout their lives. There is also a need for strong branding to promote the concept of the Network and to alert consumers as to the existence of such a service. We believe that funding will be from the State and from the industry.
- A national generic advice service should complement existing sources of advice and improve access to and the overall quality of advice available to consumers. It will be most effective if it includes a referral or hand-over mechanism between generic advice providers and other advice providers (whether private sector or specialist non-for-profit agencies). There is a strong case for the financial services industry to be required to, or at least in part, to subsidise a generic advice service as they will ultimately benefit. However, in addition to industry subsidy there may also be a case for charging users of the service on a sliding scale basis as occurs with other charitable services such as Relate.
- A generic advice service should focus on advice on financial management, budgeting and product related advice particularly at different life stages. It should not replicate crisis advice services. A 'triage' system used by early advisers at first contact should be used to assess if the person is in the right place for the advice they need. Referrals to a more appropriate organisation can then be made at an early stage. It should be made clear that no providers are involved or linked to the scheme as this may blur the boundaries between generic and regulated advice.
- Generic advice should aim to provide general, high-level, information and guidance. Drawing on experience of PENSIONFORCE we believe guidance should fall into four stages – signposting, interpreting, coaching and steering. Given the complexity of the issues involved and the importance of simplifying them into an easily digestible message it will be important for generic financial advisers to be well qualified and competent. These advisers should only be authorised to undertake their role where they have obtained an appropriate qualification such as the standards currently being developed by the Financial Services Skills Council.
- A service provided by well-trained and skilled individuals responding to client issues would provide a valuable service that would significantly benefit clients and stakeholders. A successful service as a potential model is Community Legal Services Direct. Key to the service would be the boundary between generic and regulated advice and it is clear the FSA must be involved continually.
- A national GFA service would be a valuable addition to the public services. Attention must be paid to appropriate skill levels and training for advisers and also to the relationship between this advice and levels of financial knowledge and skills among the public.

Financial services industry and other private sector

- To be useful generic advice must be personalised and be able to help an individual access products or further help. The consumer needs a clear route from generic advice to action ie reducing debt or buying a product. Following generic advice a new simplified and portable fact-find might help lower the cost of consumers of moving between advisers and channels, although this would not replace a full fact-find for those seeking full regulated advice. Generic advice would benefit from a core single brand with clear protocols laying out the service to be offered within the brand. Most benefits accrue to the public sector so there is a strong case for public funding. As much generic advice will centre on Personal Accounts, advice should be funded from charges on those accounts so to ensure a level playing field for current workplace pensions. A case has not yet been established for further industry funding but if it is shown to be appropriate then mechanisms should be agreed that are fair, sustainable and take account of both the overall contribution industry makes to funding and the volume of cases differing sectors generate for any advice service.
- We believe there should be a firm distinction between generic information, which is produced to help individuals understand financial terms and products and advice, which is specifically related to an individual's personal circumstances. Generic information should be the starting point providing individuals with an understanding of the sort of questions they should ask themselves, followed by dedicated education where people are engaged by a learning process in order to develop skills and understanding to engage with the sector. Following this generic advice might then be provided. Preventing a negative view of generic advice will be critical so we suggest the system should not be associated with products or providers. The most suitable providers are likely to be those associated with the consumer interest eg Unions and Citizens Advice Bureaux.
- We consider there should be greater support for existing advice services before a new generic financial advice solution is developed. If one is necessary we believe that the focus should be on assisting those most vulnerable to the consequences of poor financial decision making in the lower to middle income groups. We consider the following three features are essential for an effective service (1) raise public awareness and provide a route map on the Generic Financial Advice information sources available. The service should be presented as a single brand to serve as a high level entry point and to build awareness, reputation and trust (2) provide fundamental high level information and analysis to assist the customer to identify their financial position and options for action (3) assist the customer to take next steps given the outcome of stage (2). We are concerned about costs falling on the banking industry, and believe the pensions and investment industry is likely to gain most from GFA provision.
- The key challenge is how to motivate those in need to use the service. It is also important to forge links between any generic advice service and existing mainly non-financial advisers, who already work in communities and firms and are known, even trusted, by consumers. The term "advice" where it is given by an individual who is not regulated, should be avoided and substituted by "information", "guidance" or "help". Those delivering the

service could be called personal finance trainers or tutors to emphasise the educational angle. Stakeholders need to be able to relate the costs they incur to the benefits they receive. To the extent that Government will benefit it should take the lead in financing the delivery of the service. The business case for many financial services providers in the savings and investment market is clearly weak. The Government should develop its generic advice service in such a way as to ensure that consumers understand that the service costs money. Perhaps a voucher system could be considered, at least for face-to-face meetings, to encourage first time users and to limit use to those who cannot afford the service long-term.

- 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. The costs must not fall on any one party alone. The main beneficiaries – consumers and the state – should jointly meet the costs of this initiative. The introduction of Personal Accounts in 2012 will give rise for an advice service particularly on the question of whether individuals should ‘opt out’ and what investment choices they should make.

LIST OF RESPONDENTS

Alliance for Finance
Association of British Credit Unions Ltd (ABCUL)
Association of British Insurers (ABI)
A4e
Aegon
Age Concern
Association of Investment Companies (AIC)
AXA
Barclays
British Bankers Association (BBA)
Basic Skills Agency
Cattles plc
CCC
Chartered Insurance Institute
Children’s Mutual
Citizens Advice
Fair Money
Financial Services Consumer Panel

HBOS plc
Help the Aged
Institute of Financial Services (ifs)
Investment & Life Assurance Group
IMA
Money Advice Trust
Norwich Union
National Association of Pension Funds
National Consumer Council
National Housing Association
NIACE
Office of Fair Trading
Personal Finance Education Group (pfeg)
PIMA
Prudential
Resolution Foundation
RBS
Society of Pension Consultants
Students Loan Company
The Pensions Advisory Service (TPAS)
Which?
YouthNet
Young Scot

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