

ABI response to the Thoresen Review of Generic Advice “Call for Evidence”

Introduction

- 1.1 The Association of British Insurers (ABI) represents the collective interests of the UK’s insurance industry. The Association has around 400 companies in membership. Between them, they provide 94% of domestic insurance services sold in the UK. ABI member companies account for almost 20% of investments in the London stock market.
- 1.2 The insurance industry is a long-term supporter of work to increase financial capability. The FSA’s Baseline Survey showed that poor financial capability is a serious problem for people of all ages, income levels and social types. There is a growing need to address this problem and provide greater support and guidance on financial matters, particularly as the State increasingly expects citizens to take greater personal responsibility for saving and financial planning.
- 1.3 As well as better education and information for consumers, the ABI believes that improved access to affordable advice, including generic advice, on financial issues is key to improving financial capability. With better access to advice consumers will be able to buy more appropriate products and be better prepared for life events, protecting themselves from key risks, ranging from property losses due to theft or fire through to poverty in old age. The end result will be greater financial security for consumers, fewer burdens on the taxpayer and a better environment for the financial services industry to make appropriate sales.
- 1.4 While an effective generic advice service could potentially deliver significant gains, there are difficult practical issues to be resolved before such a service can be established. In its recent report on Personal Accounts, the Work and Pensions Select Committee argued that more work is needed to establish clearly the cost and benefits of any proposed generic advice service¹. The ABI agrees. The figures currently being quoted for the cost of a national system of generic advice are very substantial. Given their scale, it is important that the costs and feasibility of providing generic financial advice are properly established. A variety of differing approaches have been suggested and work is needed to find the most cost effective route that will deliver a real change in consumer behaviour.
- 1.5 A business case for industry providing a portion of the funding for a generic advice service has yet to be established. Crucially, it will depend on the regulatory context for such a service and how it links to regulated advice. In our response to the Distribution Review, we have advocated an environment in which distribution channels can continue

¹ Personal Accounts, Fifth Report of the Work and Pensions Select Committee, HC 220-1, para 65.

to develop to meet consumers' needs. In this context, generic advice might be able to serve as a triage service for some consumers, directing them to the most appropriate distribution channels after a giving them high level advice on a range debt and savings issues. But the effectiveness of using generic advice as a triage service that can smoothly hand inquirers over to commercial providers, while still being seen by consumers as authoritative and independent of both industry and government, remains untested.

- 1.6 Generic advice is only one link in the chain leading the customer to take action to improve their financial position and get the financial products they need. An integrated approach is needed. It has been suggested that following generic advice a new, simplified and portable fact-find might help lower the cost for some consumers of moving between different advisers or distribution channels. For many products and for those seeking full, regulated advice a portable fact-find would not replace a full fact-find. What is needed is a new lower-cost sales regime for certain products, in line with the principles of the Sandler Review. The current suitability requirement should be significantly reduced for some products, creating a lower-cost sales regime. This might replace the current Basic Advice regime. If Basic Advice is retained, it should be simplified, and the range of products that it covers widened.
- 1.7 We welcome the Thoresen Review and look forward to supporting its work in trying to resolve these practical issues. In the rest of this response we have attempted to answer the specific questions in the "call for evidence".

STRATEGIC ISSUES

A. What is happening today, how and to whom?

These questions aim to find out what is currently available to help people manage their personal finances in the broadest sense. This includes advice on benefits and debt advice, as well as advice on product markets or specific products. The Review Team is also interested in evidence on similar services, delivered commercially or by the public or voluntary sector.

AS1. What generic financial advice services are you aware of in the UK? Are these provided by the public sector, the private sector or the voluntary sector?

We are not aware of any current generic advice services in the UK that offer personalised but unregulated financial advice across the wide range of financial issues proposed here. Under the current regulations generic advisers cannot recommend a course of action in relation to specific products or providers, making personalised advice provision difficult without entering regulated territory. A variety of services exist to

provide information to consumers, such as the FSA's workplace programme, but these typically stop short of offering personalised advice. Where such advice is available, it focuses on relatively narrow areas, such as debt and benefits, where the regulatory requirements are less onerous. Personalised advice in key areas such as pensions and savings comes from regulated advisers, either commercially or, to a more limited extent, through initiatives such as the Citizens Advice's projects with IFAs working on a pro bono basis, supported by funding from the insurance industry.

AS2. For the services in AS1 please give some information on structure (e.g. funding, governance, scope of service, geography, legal basis of advice, scale constraints etc.)

While we are not aware of any service offering personalised generic financial advice across a broad range of issues, a patchwork of services currently offer information or guidance on particular areas. These services have a range of structures and remits and would benefit from greater co-ordination and more strategic oversight of priorities and value for money.

AS3. What do you believe is the most appropriate way of describing "generic financial advice" provision?

We believe the definition of generic advice laid out in the call for evidence – i.e. personalised but unregulated financial advice, is a useful starting point. A personalised element is likely to be an important part of making advice useful and relevant to an individual consumer. In terms of describing any service to consumers, however, care would have to be taken to distinguish the "advice" offered from regulated advice, with a clear statement about the differences in terms of right of access to the Financial Ombudsman Service and compensation.

AS4. Are there examples from overseas which offer good models for a national approach to generic financial advice and why?

There are some good examples of overseas programmes to improve consumer knowledge of financial affairs and provide information, but none that we are aware of that offer generic advice as defined by the call for evidence. The nearest examples are some of the advice programmes US employers provide around their 401k pension schemes. Unfortunately, the extreme complexity of the UK pension, tax and benefits system implies that any overseas advice models may not translate easily to the domestic context.

AS5. What academic and other research, UK or international, should the review be aware of that would be relevant to generic financial advice provision?

There have been several studies of current advice provision in the UK, most notably the Kempson and Collard report for the DWP “Advice on Pensions and Saving for Retirement: Qualitative Research with Financial Intermediaries”² and the FSA’s report “Financial Capability: developing the role of generic advice”³. The Resolution Foundation have also published research in the area of possible costs and benefits⁴ of generic financial advice provision. Unfortunately none of the research to date has adequately considered the impact of personal accounts. The Resolution Foundation study, for example, specifically excluded Personal Accounts from its modelling. We would therefore echo the call of the Work and Pensions Select Committee that more research is needed in this area, both to assess the impact of the introduction of personal accounts and to validate cost estimates. None of the current research has been able to access evidence based on trials of any proposed service.

AS6. Do you consider the current infrastructure could deliver the kind of generic financial advice provision envisaged by this review? Or is a new structure required?

If the current infrastructure could be more effectively harnessed to the provision of generic advice this could provide much of the resource needed. Additional infrastructure support may be feasibly from the commercial sector, but only if the regulatory context in which generic advice can be given is clarified and a strong business case for generic advice provision can be made.

B. What should the scope of a national approach to generic financial advice be?

These questions are aimed at some of the ‘nuts and bolts’ issues of delivering a generic financial advice (or other relevant) service: getting the content right, identifying and targeting consumers, delivery mechanisms, staffing and accreditation.

BS1. Who should generic advice aim to serve including a view on segmentation?

We believe that, subject to the results of a cost/benefit analysis, generic advice should aim to serve the widest possible market. The Baseline Survey indicated that financial capability, or the lack of it, is

² DWP, Research Report Number 289.

³ FSA, August 2005

⁴ For example, “Closing the advice gap: Providing financial advice for people on low incomes”, May 2006 and “Potential impact of financial advice on the Financial Services Industry”, March 2007

not strongly linked to income or social class. It will also be much harder to build a business case for a service focused exclusively on those on lower incomes. Priorities will nevertheless need to be established and while all generic advice services should operate within the same standardised protocol, some providers should offer services targeted at particular groups, such as the over-indebted or the hard-to-access.

BS2. Are there groups it should not aim to serve and how might they be excluded or steered away?

The main group any generic advice service will not be able to serve will be those with very complex financial affairs. If, after initial triage, it is clear an individual's situation is too complex, the person should be referred on to a more suitable advice service, either a commercial financial adviser or another specialist advice agency.

BS3. What are the best ways of reaching the target market (i.e. those most vulnerable to the consequences of poor decision-making)?

The key to a high take-up rate for generic advice is likely to be the creation of a service that the public find both accessible and useful in terms of enabling them to make a real change to their financial circumstances. Generic advice therefore needs to be linked to needs and key life events such as starting work or the arrival of a baby. The workplace will provide the most convenient access point to generic advice for some. Others may prefer the convenience of a telephone-based service and the web is likely to be a major access route to generic advice going forward. Specialist agencies should be used to service hard-to-reach groups.

BS4. What should be the content of generic financial advice? Which subjects should be included/excluded?

Generic advice should cover the fullest possible range of financial planning issues consumers have to grapple with. If generic advice is acting as a triaging service, identifying the individual's needs and, if necessary, passing them on to a suitable source of more detailed advice, it would be neither possible nor desirable to exclude particular subjects. Individuals with complex needs would be referred on for specialist help or advice. Those with more simple needs could be helped within the generic advice service.

BS5. How can the boundary between generic and regulated advice be clarified so that it is clearly understood by both consumers and those giving generic advice? Where should it be drawn?

The boundary between generic and regulated advice should be defined in terms of what allows the most effective and relevant service to the consumer. In seeking advice of any form many consumers will be seeking an answer to "what should I do?" Currently advice on what it

would be sensible for the individual to do falls within regulated territory. It would help customers to allow advice such as “most people find it sensible to...”, perhaps recommending a product category such as a cash ISA or a life policy. Regulated advice would then establish the customers’ circumstances in greater detail and would recommend a specific product (e.g. the XYZ Bank cash ISA) as suitable. This highlights the need for very clear protocols defining the content and boundaries of generic advice. Clear protocols should also ensure consistent delivery.

BS6. What organisations and services should or could be expected to refer people to generic financial advice?

In principle any organisation should be able to refer someone to a generic advice service. But a key mark of the success of any advice will be that the public actively seek it out themselves for help and advice.

BS7. Where should people be referred to after receiving generic advice? Should it be possible to refer people to a commercial provider? If so, how?

The consumer needs a clear route from generic advice to taking action, like buying a product. Otherwise many will not take the action they need to improve their financial situation. Therefore, the destination people are referred to should depend on the nature of the problem they are trying to address. In some cases, such as debt counselling, reference to a non-commercial service will be appropriate. However, in other cases where the advice is to buy a type of product, e.g. life assurance, a simple handover to a suitable provider will be a key element in ensuring that consumers find it easy to implement the advice they are given. For relatively simple products it may well be possible to define standard products and terms, similar to the current stakeholder regime, with individuals being put in touch with a panel of product providers, perhaps on a carousel system similar to the way many parents were allocated a Child Trust Fund provider. For more complicated products reference could be made to advisers, perhaps on a similar carousel basis. It will be important, however, to ensure that handovers to commercial advisers are seen transparent and do not jeopardise the independent status of the advice service in the eyes of the customer.

BS8. What qualifications/training do generic financial advisers need and where could the advisers be sourced from?

The Financial Services Skills Council (FSSC) has developed industry performance standards suitable for approval as National Occupational Standards for providers of generic financial advice. These establish a set of core skills and competences for those who are engaged in advice provision. These provide a good base for individual

qualifications and training, although they are constructed within the current generally understood regulatory boundaries for generic financial advice and may need adjusting if these boundaries are modified.

BS9. What are the legal implications of giving generic financial advice?

The high cost of regulated advice deters many consumers from taking any advice at all. This results in poor decisions or, in many cases, no decision being taken on key financial issues. Much of the cost of the current regulated advice process reflects the extensive information providers feel they need to gather on the customer in order to protect themselves against subsequent claims of mis-selling.

For any generic financial advice service to be viable, it will be important to get explicit agreement at an early stage from regulators, ombudsmen and others on the protocols for the advice it gives. The advice service should be able to suggest the broad product types suitable for a consumer on the basis of some relatively simple information gathered from the individual. Product providers should also be able to rely on the facts gathered by the advice service and supply those products.

BS10. How would the creation of a new generic financial advice service materially affect advice providers?

Subject to a robust business case being established, some current voluntary sector or commercial advice providers might be well placed to provide a new generic financial advice service given their expertise and systems. More broadly, improving financial capability across the population plus easy access to entry level generic advice should help improve consumer engagement with financial issues. This should in turn expand the market for regulated advice that can demonstrate to the customer it adds value.

C. Cost and funding

These questions are aimed at getting data on the costs and benefits of a generic advice service. As well as detailed costs, the Review Team is also interested in quantifying benefits, including individuals, wider society and different parts of the financial services industry.

CS1. To what extent should generic financial advice be free at the point of delivery?

Empirical evidence, such as the “AXA Avenue” study, suggests that charges tend to deter many consumers from seeking advice. Many of the target groups for generic financial advice are therefore unlikely to want, or in some cases be able, to pay a fee.

CS2. Is there any evidence that supports a commercial case for a generic financial advice service (including required changes to the existing model to improve the situation)?

There is currently no evidence supporting a commercial case for a generic advice provision. Key variables to consider in establishing any such commercial case will be the sort of customer any generic advice service attracts, the cost of any such service (including the suitability tests to be conducted before giving any personalised advice) and the nature of the products that can be easily sold as a result of any handover from a generic advice service.

CS3. How can the wider benefits of generic financial advice, to individuals and society as a whole, be quantified?

It will only be possible to arrive at firm conclusion on benefits once the operational characteristics of any scheme have been agreed. We would then expect Government to conduct a detailed and transparent cost/benefit analysis of any proposed scheme based on evidence gained from an initial pilot scheme.

CS4. What factors should be taken into account in deciding how to split any costs of a generic advice service between the stakeholders who will benefit from the service?

The funding arrangements for any generic advice service should be fair, sustainable and transparent. It will particularly important to avoid implicit cross-subsidies that may distort markets. As well as considering where the benefits of any advice service accrue, funding calculations should also consider the service's workload. Products and sectors generating a large proportion of the advice service's workload should pay a commensurate share of the service's costs. It will therefore be important to ensure that providers of Personal Accounts and credit products shoulder a fair share of the burden. It will also be important to consider the funding support some sectors already give to initiatives to improve financial capability. The insurance industry, for example, is making a rapidly growing contribution to the FSA's levy for work in this area. Many companies also provide significant funding assistance on a voluntary basis to financial capability initiatives.

CS5. How can the "generic" element of existing regulated advice processes be costed and its benefits quantified, including the process of customer engagement and the "fact find"?

Good regulated advice has a substantial generic element since it will normally begin with a discussion of both the clients overall financial circumstances and also their financial goals. Combined with customer prospecting (i.e. "customer engagement") and the fact find, these "generic" processes almost certainly make up the bulk of regulated advice costs.

D. How can potential users be engaged?

These questions are aimed at getting evidence on how consumers can best be attracted to using a generic financial advice service, including how they can be motivated to take an interest in their financial affairs before 'crisis intervention' is needed.

DS1. How can consumers be encouraged to improve their financial capability and take an active interest in their personal finances?

Effective customer engagement will require strong, simple, and clear messages about the positive impact sorting out personal finances can have on consumers' lives. Developing these messages and publicising them will be one of the key roles of any co-ordinating body for generic advice.

DS2. Are there campaigns that have effected analogous behavioural change relating to generic financial advice or other scenarios? What made them successful?

Some of the strongest campaigns aimed at changing consumer behaviour have been in the areas of public health and road safety and we think valuable lessons could be learnt from both areas, particularly their development of simple rules of thumb (e.g. "eat five a day") to guide behaviour. The intangible nature of most financial services and the long-term nature of many products pose particular challenges to any campaign to change behaviour.

DS3. What would an attractive brand for a generic financial advice service look like?

Any brand for generic financial advice needs be aspirational and relevant to a wide range of the population. To achieve the widest possible take up it will be important to avoid building an image that generic advice is a last resort for people with problems akin to some current debt and benefits advice services.

DS4. Is there evidence on which engagement mechanism(s) is likely to work best overall and with different segments of the target population (e.g. which media, messages etc.)?

The evidence on engagement mechanisms is mixed. For example, research by the Resolution Foundation⁵ (using a telephone survey, and therefore possibly biased) suggested that 90% of people would be happy to use a telephone-based service. In contrast, research by Which?⁶ found that 54% of those surveyed thought it was important to

⁵ "Closing the advice gap: Providing financial advice for people on low incomes", Resolution Foundation, May 2006

⁶ "National Finance Advice Network Policy Paper", Consumers' Association, May 2002

have face-to-face advice. The evidence of the practical experience the FSA has had in this area suggests that the workplace, particularly for those working for large employers, provides a popular and cost effective contact route. Taken together, these findings suggest that a range of engagement mechanisms will be needed, particularly for the relatively hard-to-reach groups

DS5. For face-to-face advice, are there particular locations that would be attractive generally for different segments of the target market?

The workplace is likely to provide a convenient location for many of the people who would benefit most from generic advice. Many ABI members and the FSA already have experience of using the workplace to give help and guidance as far as the current regulatory parameters allow.

DS6. Do you believe a new generic advice provision would lead to a change in consumer behaviour? If so, how?

Delivering a change in consumer behaviour should be the main yardstick for success for any new generic advice provision. Generic advice should not be seen as an end in itself, but as a first step towards the customer taking action to improve his or her financial position and to getting the financial products he or she needs. Any generic advice service should be subject to rigorous cost/benefit analysis of its effectiveness in delivering a measurable change in consumer behaviour. Doubts about the ability of any proposed service to deliver changed behaviour therefore need to be resolved, perhaps by launching a pilot scheme, before significant sums of money are committed.

E. What should the governance arrangements look like?

These questions are about the governance of generic financial advice provision on different bases, including a possible joint Government-industry venture

ES1. What organisation(s) should be responsible for oversight of and/or delivery of a national generic financial advice service (e.g. national vs. regional oversight; existing vs. new body)?

The consensus view of ABI members is that a new body will be needed to ensure effective delivery of a major generic advice programme. Such a body would develop strategy, set targets, measure progress and ensure resources are being used to maximum effect. Integral to its role would be transparent cost/benefit analyses of all planned activities in this area to ensure that the resources being devoted to financial capability and generic advice work have a real impact on consumer behaviour. This new organisation should bring together all stakeholders

with an interest in this area, including industry, the voluntary sector, Government departments and regulators.

ES2. How should any generic financial advice service be made accountable (e.g. targets, performance management, reporting lines etc)?

The new body should be responsible to the Treasury and have clear strategic targets in terms of value for money and reduced levels of over-indebtedness and increased savings.

ES3. What should the relationship be between any new delivery body (assuming one is deemed necessary) and existing services?

Any new body should have the role of developing protocols for service delivery, co-ordinating delivery efforts and monitoring the performance of delivery agencies.

ES4. What mechanism should be used to collect and distribute any potential financial contributions e.g. from Government, industry etc?

Work by the Resolution Foundation and others suggests that most of the benefits of any generic advice service will accrue to the public sector via reduced reliance on state benefits and welfare. This reinforces the case for public funding of generic advice.

Helping people to plan for retirement will also be a core part of any generic advice service. Much of the workload of any service is likely to focus on advising employees about the proposed new Personal Accounts. Advice specific to Personal Accounts should be funded from charges on those accounts, ensuring a level playing field for current workplace pensions. It is important to prevent any unfair subsidy that would damage good current pension schemes.

The industry already gives significant support to many areas of financial capability work identified in the Treasury's 'long-term approach' document, both through the FSA levy and through support for organisations such as pfeg and other third sector activity funded by CSR budgets. The ABI looks forward to working with the Thoresen Review to explore the business case for further funding from across the broad spectrum of financial services industry. The case is not yet established and we need to ensure that existing funding is being used effectively before deciding to commit more. If further industry funding in the generic advice area is ultimately 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 financial capability activities and the volume of cases differing sectors generate for any advice service. For example, it would be unreasonable to expect the savings industry to fund any service that in practice largely focused on helping the over-indebted.