

# **The Thoresen Review of Generic Financial Advice**

A Response to the Call for Evidence from the  
Financial Services Research Forum

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## The Thoresen Review

### Introductory Remarks: Some Overarching Themes

The Financial Services Research Forum enjoys the active support of almost fifty organisations and is the UK's leading body for furthering the understanding and knowledge of the behaviours associated with financial services. Core to our work is the pursuit of personal financial well-being. As such, The Forum is wholeheartedly in support of the aspirations underpinning The Thoresen Review and greatly appreciates the work of the Resolution Foundation in having acted as a catalyst for action. The creation of a knowledge base, aimed at mitigating the risks associated with the unintended consequences of policy decisions, is core to our work. We are of the view that undesirable, unintended consequences are likely to occur if the outcome of the review is positioned inappropriately to the public and we have some constructive proposals for the avoidance of these and other anticipated risks. Additionally, we believe that The Thoresen Review presents a major new opportunity to further aspirations for more widespread public financial capability.

Across all of the publications produced by the Resolution Foundation, considerable prominence has been given to the issue of the boundary between generic and regulated advice. The Forum believes that considerable dangers lie ahead for the unwary in this regard. In particular, we wish to challenge the use of the term 'advice' within the description of what is proposed under the auspices of The Thoresen Review. Advice implies the making of a recommendation for action, and the accountability for the consequences of pursuing any recommended course of action. Advice also requires that the advisor can pass a suitably stringent test regarding the notion of 'knowing your customer'. Knowledge of consumer cognition and behaviour leads The Forum to conclude that any service presented as a 'Generic Financial Advice Service' will be perceived by the ordinary consumer as implying the provision of a recommendation to pursue a particular course of action. Such a perception is axiomatic where the word 'advice' is used.

For these reasons The Forum is of the view that the service under consideration should be presented, and clearly perceived, as a *personal financial information service* (the service). As such, it should be aimed at enabling individuals to gain access to information about the aspects of financial services within its scope; to acquire the ability to identify their personal financial priorities; and to identify the options available to resolve their priority needs. This is entirely consistent with the sentiments expressed by Alan Goodman in: *Generic Financial Advice: Evaluating Commercial Approaches*. Thus, in essence, *financial advice* should continue to be the preserve of the regulated financial advisory domain and not be confused with the *financial guidance* that sits at the heart of the new regime.

A typical member of the primary target group cannot be presumed to be in a position to discriminate between *generic* and *regulated* advice, indeed, one wonders at the extent to which the term generic is understood by the public at large. The available evidence indicates that under the initial polarisation regime the general public had no clear appreciation of the difference between IFAs and Tied Advisers. We should learn from this experience and avoid being the cause of a new form of financial confusion. The service should be aimed at enabling individuals to make decisions for themselves or, indeed, to be directed to seek recommendations for action from duly authorised advisors. The Forum is firmly of the view that any positioning of the new service explicitly as 'an advisory service' is bound to result in claims of poor advice and become the source of yet further referrals to the FOS.

The Resolution Foundation, in various reports, quite properly positions its ambitions regarding generic financial advice within the wider context of furthering public financial capability. Generic advice and financial capability are inextricably entwined and any new service should form part of a joined-up approach to the achievement of higher levels of public financial capability. As will be argued at a later stage, the delivery of the planned new service should be under the auspices of a new body that is perceived to be independent of government or industry interference, and has a strong consumer representation. This is necessary to engender credibility and trust. There is a case for this new body to be positioned as, for example, the Personal Financial Capability Service (PFCS), initially under the auspices of the FSA. Its remit would enable it to provide a co-ordinating role for all parties involved in personal financial education and capability.

The related issue of 'know your customer' concerns the ability to assess an individual's understanding of the issue of risk, and, his/her attitudes towards, and appetite for, accepting various levels of risk. Our appreciation of behavioural economics points to real difficulties in the determination of an individual's understanding of, and attitude to, risk. This is especially so with regard to choice of asset class for long-term savings purposes. Forum research consistently demonstrates that consumers in the target groups identified as priority groups by The Resolution Foundation are what might be termed *loss averse*<sup>1</sup>. As a consequence there is a high probability that such individuals adopt sub-optimal strategies with regard to their choice of asset classes for long-term savings. Typical of such loss aversion is the understandable desire to protect capital and avoid what may appear to be asset types such as equity-backed savings instruments with a potential for falls in asset value. The ability to make recommendations regarding such momentous choices ought to be restricted to duly qualified regulated advisers. Long-term consumer financial well-being will be seriously undermined if a generic advice recommendation results in large numbers of individuals within the primary target groups deciding to adopt an overly cautious approach to their long-term savings needs.

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<sup>1</sup> For example, Diacon S (2004) 'Investment Risk Perceptions: Do Consumers and Advisers Agree?', *International Journal of Bank Marketing*, 22 (3), 180-199

## Strategic Issues

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

#### **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?**

CAB provides generic advice but largely on debt. However, through its National charity Citizens Advice, it is looking for support to help it extend a successful pilot project testing out how independent financial advisers can work with Citizens Advice Bureaux to provide free generic financial advice to people on low and middle incomes. It is funded by government grant

The FSA has a statutory obligation to provide educational services Funded by the financial services sector.

The Financial Services Skills Council (FSSC) has published National Occupational Standards for people providing generic financial advice, following extensive consultation with the industry. Again, it is funded by government.

The Pensions Advisory Service, is an independent non-profit organisation that provides free information, advice and guidance on the whole spectrum of pensions covering State, company, personal and stakeholder schemes. They operate a telephone helpline on 0845 601 2923 where calls are charged at the local call rate.

The Resolution Foundation is an independent research and policy organisation, concerned with how people on low to moderate incomes fare in today's mixed welfare economy. According to the Resolution Foundation: "We aim to deliver change in areas where this income group is currently disadvantaged by producing new research and actively engaging in the policy-making process. Our first project has explored this group's access to financial services, focusing in particular on how to meet their financial advice needs."

The Forum has carried a range of research and published a number of papers concerning personal financial education and capability and some of them are listed in Appendix 1.

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

Advice implies the making of a recommendation to act in a certain way. A distinction must be drawn between the provision of information, the evaluation of a person's individual circumstances and identification of priorities for action, and the recommendation of a course of action. It would be better to call the services on offer a *personal financial information service (the service)* as the term advice is a hostage to fortune and will result in creating unrealistic and potentially dangerous expectations. Research evidence points clearly to the dangers of failing to match expectations with reality. Recommendations should be based upon a suggested prioritisation, possibly using a traffic light system eg:

Red: **Should be avoided** (eg: life assurance for young people without dependents)

Amber: **Something to think about** – review from time to time

Green: **Should seek a solution** – basic need fulfilled via stakeholder products or seek advice from IFA/Agent for branded choice/non-Stakeholder variant.

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

A fully comprehensive response to this question could involve a massive research exercise but Thoresen could consult The Forum's EU Financial Factfile which is available via our website. That said, the "Sorted" model to be found in New Zealand represents the closest analogue that is known to the Forum research team and further details are given in response to Q DS2 (see [www.sorted.org.nz](http://www.sorted.org.nz)).

The Forum's EU Financial Factfile is the only comprehensive source that presents all sources of knowledge and information concerning financial services across the EU. All references have been fully translated into English for ease of use and the Thoresen Review Team is encouraged to make use of this unique resource. Here is just one example of what can be found, it concerns an agency to be found in Austria called Ethibel:

**ETHIBEL**

[www.ethibel.org](http://www.ethibel.org)

ETHIBEL is an independent consultancy agency for socially responsible investments that advises banks and brokers offering ethical savings accounts and investment funds.

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

Whilst there has been a reasonable amount of research concerned with the demand for financial advice generally<sup>2</sup>, there has been little work focussed specifically upon generic financial advice. Most of the published material is in the form of commentary rather than primary research and the source of most material is the policymaking and third sectors, which, no doubt, the committee has accessed. There remains a lack of in-depth understanding as to precisely when and why consumers perceive the need for financial advice and how the demand for financial advice varies with consumer characteristics and across different product markets. There is also a lack of rigorous research investigating which particular segments or groups of consumers exhibit significant

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<sup>2</sup> See McKechnie, S and Devlin, J F (2005) "A Preliminary Investigation into the Demand for Financial Advice in the UK" Nottingham University Business School/Financial Services Research Forum Report (52 Pages) for a thorough review

vulnerabilities, meaning that the availability of good quality affordable advice is essential and whether, in such circumstances, suitable advice is available.

**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?**

The Forum Research Team is of the view that elements of the current infrastructure could make a valid contribution to the formation of the new service, especially in the short term. However, for the longer term a new body is indicated that can provide focus and overarching coordination and management functions. Further views on this new body can be found under paragraph ES1. With regard to current infrastructure, we believe that a number of current agencies in the not-for-profit sector can play an important role with regard to the provision of face-to-face and, possibly, telephone-based help. Examples comprise Citizens Advice, the Pensions Advisory Service and the Consumer Credit Counselling Service.

The Forum believes that the new body, with suitable funding, will be required to deliver appropriate web-based and call centre-based services of sufficient scale and accessibility.

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

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

In considering to whom generic advice should be targeted, there is an opportunity to apply “joined-up thinking”. By far the most recent comprehensive attempt to segment the financial services market in the UK in the public domain is the FSA’s analysis of its baseline survey of financial capability in the UK<sup>3</sup>. The data analysis contained in that report produced four sub-domains of financial capability, one of which was further divided into two factors, resulting in capability measures for five areas. Those with the most weakness were then clustered and profiled and such information could be used to target generic financial advice at those who are likely to most need it.

A distinction must be drawn between which segments of the population represent the primary target audiences for the new services and which groups of citizens should be allowed access to the services that are made available. The former groups have already been identified by earlier work conducted by the Resolution Foundation and should be the focus for proactive promotion of the services, since it is their needs that are the most un-met and it is they who are most vulnerable to financial detriment. That said, all citizens should be permitted to use the services, notwithstanding the fact that it will not be promoted pro-actively to more affluent groups of citizens.

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

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<sup>3</sup> Financial Services Authority (2006) “Levels of Financial Capability in the UK: Results of a Baseline Survey” prepared for the Financial Services Authority by the Personal Finance Research Centre, FSA London

As already commented upon in response to BS1, those who do not exhibit areas of weakness according to capability data probably do not require generic financial advice. However, excluding them from such a service is likely to prove highly problematic. They would need to be clearly and accurately identified ex-ante and provided with some disincentive. Excluding individuals from the service on the basis of lack of need could be achieved using a sophisticated form of telephone/web based filtering mechanism which would direct inappropriate enquiries to alternative sources of advice. Indeed, the evidence base indicates clearly that a degree of self-selection will occur as more savvy and affluent citizens can be expected to seek financial advice from sources within the regulated domain, most notably from IFAs and specialist investment advisers.

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

**Young people**

Promotional material in popular culture publications like FHM and popular shows  
Internet campaigns  
An e-mail information enquiry service  
Text messaging on mobile telephones.  
Use games consoles e.g. Xbox

**Older people**

Meetings with, and presentations to, representative groups and co-operation with the entities like Saga and Age Concern charity  
Supermarket road shows on pension day  
Specific individual officer for under-represented groups.

**Ethnic minority groups**

Use ethnic language newspapers e.g. Punjabi, Polish etc  
Have on site arrangements to offer interpreting facilities.

**Disabled**

Website with best practice compatibility for partially sighted users.  
Partnerships with disability lobby groups and charities regular columns in magazines devoted to disability issues

Note also the organizations referred to in answer to QBS6. Consideration should also be given to trying to arrange the placement of relevant storylines in suitable soap operas. For example, Hollyoaks could include a storyline concerning, say, saving or getting into debt, Coronation Street could have one concerning retirement funding, Eastenders one concerning getting a mortgage, all could make reference to some aspect of how the PFIS works and can help.

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

Ultimately, the service should allow the enquirer to gain access to three core services, namely: a comprehensive personal financial review, a focussed review ( e.g .pensions needs) or the handling of specific ad hoc queries regarding personal financial matters. This will require the means of giving information about not only all core forms of financial services but also relevant information concerning personal taxation, the benefits system and likely impact of personal financial arrangements on means-tested

benefits. Clearly, this will place exacting demands upon the system and its associated agents. However, it is highly likely that those individuals who comprise the primary target groups for the service will have a high propensity to be affected by one or more aspects of the state benefits system. At the very least, clients should be advised to seek advice from relevant benefits agencies if there is a possibility that a new financial arrangement on their part may impact detrimentally on any state benefits to which they might be entitled either in the present or at some point in the foreseeable future.

- The full financial review should be accessed principally via the web and should encompass:  
Everyday money management (Budgeting, Cash management, Current Accounts, Basic Cash Saving)  
Investing in Stock and Shares and Bonds  
Buying a home  
Pensions and retirement finance  
Credit  
Loans  
Insurance GI  
Life and Health Insurance  
Debt management, bankruptcy, voluntary agreements etc

**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?**

This comes down to definition and scope. The core proposition should be re-defined/re-positioned as a personal financial information service that helps people to decide for themselves or seek regulated advice. It is recommended that a suitably snappy and appealing “brand name” be applied to the service for ease of communication along the lines of the “Sorted” identity created in New Zealand. As soon as the word ‘advice’ is used consumers will have an expectation of receiving a recommendation. The giving of recommendations indicates accountability for outcomes with all that this implies in terms of liability, compensation etc, complaints handling resolution and redress.

Thus the demarcation should be along the lines of:

“Are you looking for information to help you decide what to do?” If yes, go to the service.

“Are you looking for someone to recommend a specific course of action including proposals for the purchase of specific products?” If yes, seek advice from a regulated financial adviser.

The service should comprise two core components, namely (a) a personal financial review process, and (b) a financial enquiry service. The latter is a means by which consumers can receive answers to questions about aspects of personal financial management noted in answer to BS4. This service could be delivered in a number of ways, e.g.

- Basic service on the website using a simple Q & A interrogation section.
- References to other sources for more in-depth enquiries eg: debt - CCCS; pensions – PAS.
- Provide an email enquiry service.

- Provision of a call-centre service.

The personal financial review process could work as follows:

- Personal Financial Diagnosis (PFD) via web-based process. This will comprise all areas noted in response to BS4. Software will be required that summarises needs and options. Options should point to basic resolution via the relevant Stakeholder product (range may need to be extended) or to seek advice for more specific proposals.
- Focussed Financial Diagnosis (FFD) should be an option where there is a more tightly defined need, eg: Life assurance
- The PFIS call centre should also provide a Voice 2Voice FFD service.
- The FFD Service can also be provided by specialist approved agencies such as CAB.
- The comprehensive PFD could be made available via either a network of local centres newly set-up or by existing agencies such as Citizens Advice. The difficulty is gauging actual usage patterns, take-up rates and costs. A trial system could be set-up in a discrete region and run over a reasonable period to establish key metrics. This is important given that funding will be expected to come from a combination of: FSA/government and the industry. There should be no blank cheque.

The outcome of the FFD on PFD should be the identification of priorities adopting the traffic light system. Where a 'green light' shows the consumer should be advised of the appropriate Stakeholder product or guided to seek advice.

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

Consideration needs to be given both to the referral of individuals to generic advice and the provision of information that aims to prompt people to use the generic advice service. As far as the former is concerned, a great many possibilities occur including:

Employer organisations (i.e. the workplace)

Universities, colleges and, possibly, schools

Social workers

Voluntary bodies such as Samaritans, Citizens Advice, Help the Aged, Mencap, Scope

Government Employment and Benefits offices

Financial services providers

IFAs

Transact (this organisation could act as a means of promoting the service through its network of several hundred organisations that are concerned with providing help to the financially excluded)

With regard to the latter, the above list applies in addition to which one would add agencies such as:

Post offices

Banks and Building Society branches

Supermarkets

GP surgeries

Ante natal clinics and hospital outpatients departments and ERs

Public Service Broadcasting and advertising should also be considered.

**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?**

In essence, the proposed service should concern itself principally with handling routine queries regarding personal financial needs and enabling people to identify priority areas for action. Having assisted the client in identifying a need they should be guided towards the appropriate Stakeholder product and advised to consult the full list of Stakeholder product providers. This list could be accessed via the FSA website and/or be available on the service website. In due course, this might result in the need to broaden the range of generic product types for which there is an available Stakeholder product. Other suitable forms of hand-off might, for example, include ABCUL for details about accessing the services of a credit union. Clients who express the desire to receive advice regarding a specific product or product provider should be advised to seek regulated advice from a comprehensive list that the FSA makes available.

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

Expert systems should be used to good effect to enable clients to access web-based assistance and for the use of call centre-based agents. Individuals involved in giving face-to-face advice may be of two basic types, namely those who give focussed advice about a specific area of need, eg: debt, and those who provide a comprehensive advisory service. Both types of adviser will be required to have a suitable level of expertise and systems and processes will have to be put in place to ensure effective standards of supervision and management. Those people providing a comprehensive services can be expected to have a level of knowledge and expertise that is akin to an appropriate level of the FPC. The Financial Services Skills Council could make a strong contribution in this regard.

A major opportunity presents itself for employees within the financial services industry to act as volunteers in the delivery of both of the above two forms of advice. This would allow the industry to make a major contribution to Corporate Social Responsibility by enabling their staff to provide support on a pro-bono basis in centres that fall within the auspices of the service.

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

Subsequent to the introduction of a generic financial advice regime, a continuum is envisaged. At one extreme would be those individuals who take no advice and are happy to conduct their financial services business on an execution only basis. The next point of note on the continuum would be those who may consult the consumer information and comparative information that the FSA provides, but are then happy to make their own decisions, taking due heed of the disclosures and warnings that are required by the FSA. Further along the continuum would be those who may take advantage of the offer of generic advice, once it has been established how and where it will be made available to the public. Then, there are those individuals who will take basic advice and purchase the stakeholder variant of a product. Such individuals may well be reassured by the fact that the charges and features of such products are, in broad terms, specified by the government. Finally, at the other end of the continuum are those who continue to take full advice, whether on a commission or fee paid basis.

Those who seek generic advice once it is available are likely to be a mixture of the following groups. Firstly, those who would have acted on an execution only

basis and are seeking confirmation that they are doing the right thing. The material implications of this group for other advice providers are likely to be minimal. They were not minded to take other advice initially, although a proportion may choose to do so subsequent to receiving GFA should they learn that their needs are different and more complex than they envisaged.

Secondly, there are those who would have approached an advisor but would prefer to enter the market via the generic advice route. Here, material effects on existing advisors may be greater as a number of these enquiries may be filtered out by the GFA process, for instance if they were advised against a product purchase in current circumstances. However, under best advice individuals in such a position should in theory be advised against a purchase by all advisors. The potential upside of this scenario for other advice providers is that generic advice may act as a filtering mechanism which reduces the number of enquiries from unsuitable clients. In turn, this may make existing advisors more efficient and lower their cost base.

Finally, there are those who would have not entered the marketplace if well publicized truly independent generic advice had not been available. The material effects of this group for advice providers are likely to be positive, as a number of such individuals may well be referred on for more detailed personalised advice.

### **C. Cost and funding**

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

Generic financial advice is a merit good: it is under-consumed in a market because the social benefits are not sufficiently valued by individual purchasers. This implies that advice for individual consumers may need to be subsidised in order to expand its utilisation. Furthermore the commercialisation of generic financial advice will undermine public confidence in it. It is the commercialisation of the current financial advice regime that has forced an increasing number of people away from having access to financial advice.

Generic financial advice or guidance will need to be free at the point of delivery if people are unwilling to pay for it, and unfortunately this does indeed appear to be the case. A number of recent studies have suggested that nearly 50% of UK residents are unwilling to pay any amount for financial advice<sup>4</sup> and others suggest that less than 20% of people would be prepared to pay a fee to advisers<sup>5</sup>. Perhaps this is not surprising given the general lack of capability and understanding of financial issues: why should people pay for advice that they don't know they need or that they think will be biased?

The outline business models reveal the real possibility of the costs of the new service being substantially in excess of what is currently envisaged. Key variables appear to be: number of enquiries per annum, form of enquiry (whether web-based, e mail, telephone, or face-to-face), and length of session. The fifteen minute average referred to in various papers could be a wild under-estimate. At

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<sup>4</sup> For example, London Economics (2000) 'Polarisation and Financial Services Intermediary Regulation, July; Diacon S & Hasseldine J (2007) 'Framing Effects and Risk Perception: The Effect of Prior Performance Presentation Format on Investment Fund Choice', *Journal of Economic Psychology*, 28, 1, 31-52

<sup>5</sup> Wallis, V (2005) 'Advice and the best way of delivering it', *Consumer Research* 43, FSA, August

present there is only sketchy data re the likely order of magnitude of these key operational variables. For these reasons we believe it is essential for the service to be tested in a geographically defined area for a period of time that allows for the key variables to be assessed with a reasonable degree of accuracy prior to national roll-out. Given the likelihood of joint industry/government funding it seems only reasonable that the interest of tax payers and shareholders/members be safeguarded by the avoidance of an open-ended financial commitment. Examples of poorly assessed cost estimates abound in the field of new public/private endeavours (eg: 2012 Olympics, new Wembley Stadium, Scottish Parliament Building, NHS computer system etc etc..). There is no need to make the same mistake here and any adverse publicity concerning the operational effectiveness and responsiveness of the service, and its financing, can only serve to undermine the very public confidence on which its success must be based.

**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 appears to be a substantial market failure problem in relation to financial advice. Consumers seem unwilling to pay for it, and the market share of IFAs is declining. Many commentators have suggested that a lack of trust in advisers is a key factor: advisers are seen to have vested interests and to offer biased advice.

Generic financial advice must be provided, in the early years at least, by organisations that are trusted by consumers (perhaps ones where consumers have a key role in the corporate governance) and where there is no perception of possible biased advice. Making a commercial case for generic advice will reduce its legitimacy.

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

The main benefits of generic financial advice are set out in detail in a number of sources<sup>6</sup>. The benefits of advice to individual consumers can be measured by the maximum they are willing to pay for it – but we know this underestimates its true value because of its ‘merit good’ characteristics.

The benefits to society as a whole include improved individual financial decision-taking, avoiding mis-selling and other financial ‘scandals’, possibly reducing the welfare burden<sup>7</sup>, and improving product- and stock-market efficiency. These difficult to quantify, particularly because they occur in the future, and arise in response to an inevitable scaling-down of the welfare system (the impact of which has yet to be fully appreciated).

**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?**

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<sup>6</sup> For example, Consumers’ Association (2002) ‘National Financial Advice Network Policy Paper’, May;

<sup>7</sup> Less-wealthy consumers are likely to be advised to reduce their savings in order to qualify for means-tested state benefits, and hence advice may increase the welfare burden.

The implicit assumption behind this question is that there is no 'market failure' in the provision of financial advice. However, this is patently not the case, and in such circumstances many stakeholders will not be prepared to pay an amount proportional to the marginal benefit they receive. An attempt to apportion costs may lead to failure: individual customers will under-pay and other stakeholders may refuse to make up the balance.

**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"?**

This seems a reasonably straightforward process, in that it should be possible to obtain an estimate from advisers (both tied and independent) of the time spent in the advice and sales process on 'generic' issues.

**D. How can potential users be engaged?**

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

Encouraging people to increase their financial capability and to take an active interest in their finances requires individuals to consider a long term perspective. The message used to convince consumers to do so could either be framed in a positive or negative manner. The former would emphasise a more financially secure and comfortable future, a gain perspective, whilst the latter might emphasise the risks of not planning for the future and the unfortunate consequences of not having sufficient savings etc, a loss perspective. In a healthcare context, research has shown that a "gain perspective" is more likely to change peoples' behaviour than a "loss perspective", when the risks are relatively distant.<sup>8</sup> This would suggest that any social marketing campaign aimed at increasing the take up of GFA services should be framed from a gain perspective, emphasising the positive outcomes of financial planning.

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

There are a number of social marketing success stories ranging from encouraging breast feeding to preventing the spread of AIDS.<sup>9</sup> Perhaps the most similar campaign to that which would be needed to publicise GFA is the "Sorted" campaign for retirement saving in New Zealand.<sup>10</sup> This campaign aims to ensure that New Zealanders understand the benefits of supplementing state provision with their own private savings and to improve New Zealanders knowledge of sound approaches to financial planning and management. It has clear primary target segments, namely young people, families and households and people at work. The web has become the key channel by which it disseminates information, in line with consumer preferences and it attempts to convey the positive concept of "financial fitness for life", rather than placing an overemphasis on retirement. It also has an irreverent, fun brand which is likely to increase appeal to its core target segments. There are also Sorted Kids and Sorted Students sub-brands.

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<sup>8</sup> Detweiler, J B, Bedell, B T, Salovey, P, Pronin, E and Rothman, A J (1999), "Message Framing and Sunscreen Use: Gain-Framed Messages Motivate Beach Goers" *Health Psychology*, 18(2), pp 189-196  
<sup>9</sup> <http://www.social-marketing.org/success.html>

<sup>10</sup> <http://www.socialmarketing.co.nz/casestudies/SORTED1.pdf> and <http://www.sorted.org.nz/>

The Sorted website has won a number of awards and has attracted well over a million visitor sessions since launch.

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

An attractive brand name for the service would avoid staid associations with traditional financial planning and the financial services industry. It would look and inclusive, accessible and fun. The “Sorted” brand from New Zealand provides a good example of a brand which will appeal to the majority of segments in the market place and which would not alienate potential users. The Sorted brand also has the added advantage of lending itself to “sub-branding”, for instance Sorted Kids, Sorted Students, Sorted Families etc.

**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)?**

For the “Sorted” project in New Zealand, research carried out by AC Nielsen suggested that people preferred online delivery of basic financial planning advice due to the anonymity offered, as well as the opportunity for personalised interactivity. No data were provided on segment preferences.

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

All face-to-face advice should be delivered totally independently of commercial organisations in the financial services sector, to ensure that the advice rendered is seen as impartial. An organisation which has a heritage of being a consumer advocate, such as Citizens Advice, would provide the most suitable channel for face-to-face delivery. It is uncertain whether different segments will have significantly different preferences for alternative face-to-face locations, what is more likely is that some segments will not be interested in face-to-face provision, whilst at the other extreme some segments may only access such channels.

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

Provided that the service is marketed effectively, then there is no reason why changes in consumer behaviour should not result over a period of time. This means getting the core product and branding right, having a clear understanding of what is the nature of the exchange taking place (i.e. what consumers are sacrificing and what they are getting in return), developing a clear consistent message which has relevance to and resonance with the target market(s) and having a mix of delivery channels which reflects market preferences. There have been social marketing success stories which have resulted in behavioural change and the basic lesson appears to be that the fundamental lessons of marketing strategy and communication must be heeded for such a campaign to have any chance of success.

**E. What should the governance arrangements look like?**

**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)?**

There should really be a new body involved, since all existing bodies either are linked to non-generic advice or discrete problem areas such as debt or specific groupings (e.g. students). It should be a national organization with regional arms. It would need to be funded by government and the industry but be independent of any political and/or commercial control. It is vital that the service be conceived, organized and managed on a non-commercial basis to engender public confidence and trust.

In the short term it may be expedient for the service to come within the auspices of the FSA, especially given the FSA's remit in respect of financial education and capability. This would make it all the more important that the service is not involved in giving advice that could be construed as making recommendations for action since the FSA must not be seen to be involved in the delivery of a service for which it also acts as regulator. It would seem to make sense for the FSA to be responsible during the proposed pilot period. In the longer term, consideration should be given to the formation of a fully independent service that comes under the wider umbrella theme of personal financial capability, possibly the Personal Financial Capability Service. (PFCS). The Financial Services Consumer Panel could play an important role in safeguarding the public interest from the way in which the service is organized and run.

There is a certain logic in the FSA devoting itself to regulating and safeguarding the market for the protection of consumers and shareholders and the furtherance of the interest of the wider community. The devolving of its responsibilities for financial capability to a new, dedicated body would allow both the FSA and the PFCS to single-mindedly pursue what are in some sense quite distinct roles. Again, the Resolution Foundation's excellent background studies and reports point clearly to a generic advice service being concerned with equipping consumers with the skills necessary to better safeguard their personal financial well-being. That being so, it seems highly desirable for the service to be positioned as a sub-division of the wider PFCS. Real synergies are in prospect from such an arrangement.

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

It should be accountable to the FSA through the review of agreed key measures of performance and through the interrogation of senior executives by parliamentary committee if deemed appropriate. If, in the long run, it becomes a fully stand-alone entity it should also have its own board of governors drawn from the industry, educational institutions, the regulator and independent members representing the public.

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

It should co-ordinate their activities through constant liaison and overlapping membership

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

Initially though some minor adjustment to the FSA industry levy supported to an equal amount by government funding since both parties should be equal beneficiaries from the new service. However, it is vital that the service is fully fit-for-purpose as well as being soundly and fairly funded to ensure its credibility and engender consumer trust and confidence. An appropriate pilot programme is considered essential to ensure that relevant processes and management arrangements are duly stress tested and that key client usage variables can be estimated with a reasonable degree of accuracy.

## Appendix 1

The Forum has published a number of reports on personal financial capability on its own account and in conjunction with the ESRC and HM Treasury follows:

- Ewells, J., Knights, D and McLean, C (1998) Personal Finance Education and Money Advice: More Work for the Over-stretched or a Perfect Partnership', *Quarterly Account: The Journal of the Money Advice Association*, Number 48, pp. 9-12.
- Ewells J and Knights D. (1999) 'Growing up with Personal Finance Education', *Money Advice Scotland Journal*, Spring.
- Ewells, J. and Knights, D. (1999) 'Personal Finance Education: In the Hands of the New Regulator?', *Quarterly Account: the Journal of the Money Advice Association*, Summer
- Knights, D., Ewells, J., McLean, C and Odih, P (1999) *Educating the Public in Personal Finance: Problems and Prospects*, University of Keele.
- Knights, D and Odih, P (1999) *Personal Finance Education in Employment*, University of Nottingham Business School.
- Ewells, J. and Knights, D (1999) *Money Talk: Personal Finance Education in the Community*, University of Nottingham Business School.
- Ewells, J. and Knights, D (1999) *Money Education Begins at Home - Family Learning and Personal Finance Education*, University of Keele.
- Knights D. and Noble F. (2000) *Can Consumers be Educated to Save for Retirement: Interim Report of the Personal Financial Education Project*, Financial Services Research Forum 17 October. Nottingham University Business School.
- Knights, D. and Noble, F. (2001) *Personal Financial Education in Employment*, Financial Services Research Forum.
- Knights, D. and Noble, F. (2003) *Developments in Consumer Financial Education*, Financial Services Research Forum.
- Alferoff, C. Knights, D. Leyshon, A. and Signoretta, P. (2004) *Delivering Financial Services in the Home*, Financial Services Research Forum and ESRC.
- Devlin, J. (2005), Attitudes Towards Government Regulation and Consumer Policy Initiatives in Retail Financial Services, Financial Services Research Forum.
- Alferoff, C. Knights, D. and Starkey, K. (2006), *Reluctant Consumers? Consumer Knowledge, Trust and Well-being*, Financial Services Research Forum.
- Devlin, J. (2006), *An Evaluation of Policy Initiatives Designed to Aid Decision-making in Personal Finance in the UK*, Financial Services Research Forum.
- Devlin, J. and McKechnie, S. (2006), *Consumers and Financial Advice in the UK: A Research Agenda*, Financial Services Research Forum and HM Treasury.

- Devlin, J. (2006), *A Detailed Study of Financial Exclusion in the UK*, Financial Services Research Forum.