



FRIENDS PROVIDENT

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Dear Otto

Thoresen Review of Generic Financial Advice – Call for Evidence

We are grateful for the opportunity to submit our views to the Thoresen Review of Generic Financial Advice. We fully support this initiative and believe that it can lead to a marked improvement in the availability of support to people who need assistance with their finances.

Friends Provident is committed to work on addressing financial exclusion and using financial markets to produce social value through the work of the Friends Provident Foundation, an independent grant making trust.

We have set out below our initial thoughts on possible ways forward for the provision of generic financial advice together with some answers to the specific questions raised.

We are pleased that a fresh approach is being taken to resolving this issue. If it is to succeed it is essential that solutions are outcome focussed and do not have the constraints, which have resulted in limited success in previous initiatives. We believe that part of the reason for this limited success has been the attempt to find the perfect solution for each individual whereas the objective should be to find an acceptable outcome (near enough is often good enough in many situations).

Strategic Issues

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?

We do not have a significant amount of information on this, however we are aware of a small number of services. For example, some local government agencies (such as within a Housing Benefit Department) provide information on benefits available to individuals and how to obtain them. We hope that other agencies providing advice currently will submit information to the Review. The obvious ones include the

Citizens Advice Bureau, Help the Aged and Credit Unions.

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.)

We do not have any information on this area.

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

It is essential that it is seen as guidance so that the individual owns the outcome and feels part of the process. A better description would be Basic Financial Guidance.

Primarily, it is helping people to identify their financial needs and prioritise the action they should take.

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

We do not have any information on this area.

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

We do not have any information on this area.

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?

Clearly, there is a significant amount of activity aimed at this area already happening although the coverage and breadth is patchy. Greater and more comprehensive provision can only be achieved by a co-ordinated and overarching approach. Consequently, we feel that a new organising body is necessary.

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

Basic Financial Guidance should be free for the individual. It needs to be designed so that it is non-threatening and easily accessible. The choice of access would vary between guidance providers and could include telephone, face to face and via the web. In some situations printed material may also be an option.

The guidance should stop at the action the individual needs to take, such as opening a basic bank account for budgeting or creating an emergency fund. At that stage the guidance would provide a list of approved companies offering that product thus enabling the individual to purchase the product. The guidance could also include the

areas the individual needs to consider when making their choice of provider. The individual takes responsibility for following the guidance and making the purchase. We believe that this would create a natural break between Basic Financial Guidance and regulated advice, which directs an individual at a specific product and provider.

Fundamentally, Basic Financial Guidance should be available to all however the process and level of guidance should be designed to self-exclude those people for whom it is inappropriate. This could be because their financial position is such that full advice is more appropriate.

The guidance should be designed on an incremental basis so that the basic financial needs are satisfied before looking to progress to the next stage. In many cases the guidance would not be a one-off event but be spread over a period of time as an individual's circumstances improve.

The government have a significant role to play here and can help ensure the technology that can be used to gain access to Basic Financial Guidance is available to everyone. For example, technology could be introduced or expanded in Post Offices and libraries.

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

Our comments are set out above.

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

Our comments are set out above.

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

There are two areas to address, firstly awareness of the availability of the guidance and, secondly, its provision.

The most effective way of raising awareness would be to aim at the trigger points for a need for guidance and situations where individuals come into contact with likely guidance providers. We would see employers and government benefit agencies as key areas where awareness could be raised through the provision of information about the service available.

Ease of access to the guidance is essential and here, again, we would see an important role for employers, government benefit agencies plus other advice providers such as Citizens Advice Bureau, Help the Aged and Credit Unions.

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

As we have stated above, the guidance should be designed on an incremental basis. It should cover the broad spectrum of financial needs from debt management and budgeting through to saving and pension provision. The process and guidance should be designed to help and support people to determine for themselves what their financial needs are and how they might achieve their objective.

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?

Our comments are set out above.

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

Our comments are set out above.

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?

Where the guidance suggests that the individual needs to purchase a product, such as a basic bank account or savings plan, we believe the guidance provider should give them a list of approved companies who offer the product.

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

We agree that guidance providers should be suitably qualified. There is a good range of financial qualifications already available, which could be adapted to make them suitable for this area of knowledge and expertise.

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

It is important that the process is seen as giving guidance on which the individual decides what action to take. Consequently, the individual owns the responsibility.

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

The key need area for basic financial guidance comes from those who do not currently have access to any financial advice, generally the lower to middle income sectors of the population. Historically this formed the main market for Industrial Branch and Direct Sales Force business, which are no longer active to any large extent. We do not see the provision of Basic Financial Guidance affecting current

advice providers to any great extent. It is possible that the process could encourage some individuals to seek full advice thus increasing the market although this is difficult to quantify.

The people who no longer have access to Industrial Branch and Direct Sales Forces still have financial needs that would be satisfied through the provision of Basic Financial Guidance. Consequently this would lead to renewed sales volumes from this sector of the population.

Cost and funding

To support the Basic Financial Guidance initiative we believe that a new basic product range should be developed. This would cover products ranging from a basic bank account right through to basic pension savings. In some cases this could build on products already available.

The basic product range should be capable of purchase without advice and be non-regulated. The basic aspect of the product is linked to lack of complexity and functionality rather than necessarily being cheap. For example a savings plan would have a very limited range of funds available.

The product range needs to be commercially viable for the provider and should not be capped in relation to charges. No commission should be payable on them thus helping to contain the level of charges.

We believe that there needs to be a general acceptance that the level of charges for these products are not the most important issue. For an individual the desire and need to accumulate a lump sum of money over a period of time is often much more important than the net return compared to alternatives.

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

As already mentioned, we believe it should be free.

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)?

We do not believe that the service can be self-funding.

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

We are unable to quantify the actual benefits. However, there are clear benefits in people becoming more financially self-reliant including reducing their need for state benefits.

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

There are clear social benefits to be gained. Consequently, we believe the government should fund a large proportion of the costs in providing the service. Many situations will not lead to a product being purchased. It would appear reasonable for the financial services industry to also share some of the costs. However, we do not feel that a general levy across all companies would be the appropriate mechanism since many will not be in that market. Any contribution could be based on the volume of basic products issued by a particular provider perhaps by means of a levy on each product taken out.

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”?

It should be possible to estimate the likely average time needed for the process and a reasonable salary plus overheads for the guidance provider.

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?

It should be possible to identify the current trigger points that make people seek financial help. Please see our comments in BS3 above.

Clearly there is also the longer term role in increasing financial education in the curriculum.

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

We do not have any information on this aspect.

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

No comment at this stage.

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.)?

No comment at this stage.

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

No comment at this stage.

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

It is likely to re-engage people who used to purchase financial products but who have become excluded following the closure of the majority of Industrial Branch and Direct Sales Forces.

Positive experience for people using the service would help to improve the trust in the financial services sector and people's confidence in managing their finances.

What should the governance arrangements look like?

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

There should be an overarching national body, which would co-ordinate and oversee the provision of Basic Financial Guidance. It should have its own identity and be independent so that it can foster a feeling of trust so that people have confidence in the service. This body should also be responsible for setting the standards of service and monitor them.

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

The overarching national body would set standards to be achieved.

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

Co-ordination and oversight.

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

The national co-ordinating body could be responsible for collecting contributions from the government and industry. Most companies within the financial services sector already pay fees and levies to regulatory bodies and this mechanism could be adapted to incorporate the collection of any product levies.

Operational Issues

What is happening today, how and to whom?

AO1 What advice service are you or your organisation responsible for delivering (this need not be generic financial advice)?

The majority of our business is obtained via independent financial advisers (IFAs). However, we do provide advice through telesales, e-commerce and employers.

AO2 How is your advice delivered (e.g. face-to-face, web-based or telephone)?

Face to face, telephone and web-based.

AO3 What is the legal, organisational and governance structure of your service?

Where we provide the advice we are responsible for its suitability.

AO4 How is your service funded?

Through charges within the products.

AO5 How did you identify your customer and their needs?

The majority of our business is obtained via IFAs who would do this aspect.

We do not provide generic financial advice therefore do not have any information to add to the remaining questions.

We hope that you find our response helpful and we would be delighted to provide any additional information you require or to discuss our response in more detail.

Yours sincerely

Simon Clamp
Managing Director – UK Sales & Marketing