



**Response to Thoresen Review on  
Generic Financial Advice**

27 April 2007

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## Introduction

Who is Hitachi Consulting?

Hitachi Consulting is the global business and IT consulting company of Hitachi Ltd., and a recognized leader with deep industry, business, and technology experience. The firm helps clients quickly realise measurable business value and achieve sustainable return on investment.

We are independent, in that we don't sell hardware, SI, outsourcing or auditing.

Hitachi Consulting offers the agility of a smaller firm, the stability of larger firms, and the innovation that comes with being part of Hitachi.

The UK Financial Services Practice focuses on:

- **Business Intelligence:** structuring data to deliver relevant contextual information enabling staff at all levels to understand and influence the performance of their business
- **Operational Excellence:** combining the most suitable aspects of Six Sigma, Lean, Electronic Simulation and our own change methods to improve service whilst making major savings
- **Sales and Distribution Excellence:** improving all aspects of sales and distribution, including customer segmentation and contact centre revenue generation
- **Technology Exploitation:** getting better value from existing technology, and the appropriate use of recent developments such as Service Oriented Architecture
- **Content and Knowledge Management:** enabling the delivery of the right content, in the right context, at the right time
- **Programme and Change Management:** helping shape and deliver programmes to implement lasting change on time and budget

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Our response to the Thoresen Review

Hitachi Consulting is not in the business of providing Financial Advice. However, we are closely associated with the Financial Services industry and provide the strategy, processes and technology to implement Financial Advice solutions.

We believe that our expertise and knowledge of access methods and channels enhances the ability of the Thoresen task force to develop practical solutions that can be implemented efficiently.

Given our background, our firm has focused on the response to the Strategic Issues outlined in the 'Call for Evidence' document.

We look forward to further dialogue with the task force as the review progresses.

## Strategic Issues A - What is happening today, how and to whom?

Response to questions AS1, AS2 and AS3

**Question:** 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? 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.). What do you believe is the most appropriate way of describing “generic financial advice” provision?

**Response:** We agree with FSA’s definition of Generic Financial Advice as defined by the document titled “Financial Capability: Developing the Role of Generic Financial Advice”.

Based on this definition, we believe Generic Financial Advice is offered by a range of institutions within UK, as outlined below.

**Figure 1: Generic Financial Advice Service Providers in UK**

Advisory body Categories	Sector	Scope of Service	Funding, Governance and Legal basis of Advice	Scale and Constraints
<b>IFA</b>	Private Sector	Qualified consultant(s) who invest in understanding the circumstances of the client and offer financial advice combined with access to purchase a range of financial products.	Funding is through a charging structure, whereby the client is charged either an hourly fee or a commission on products purchased. The IFAs are regulated by the FSA and operate under a strict framework of rules, regulations, training and exams.	IFAs range from individual consultants to corporations. However, not all IFAs offer advice on all products and the client needs to perform his own verification of the type of advice the IFA can provide. In the event of a client investing in a product that does not provide the returns expected, the recourse is usually complicated and it can be difficult to attribute this between the provider of the advice (IFA) and the provider of the product.
<b>Tied Agents</b>	Private Sector	Offer advice on products from a single provider.	Typically, tied agents are members of staff or agents for a particular private sector organisation offering financial products, such as Banks and Insurance firms. The product manufacturer is regulated by the FSA. Many people buy products this way, usually because they feel more comfortable buying from a big-name organisation. They assume, sometimes incorrectly, that they are bound to get a good deal.	The person providing the product information or advice is acting on behalf of the product provider. A client usually gets limited information on a small selection of products.
<b>Multi-tied Agents</b>	Private Sector	Offer advice on products from a limited range of manufacturers.	Typically offered by Banks and Building Societies. Regulated by the FSA.	Customers need to check out the breadth of products and providers on offer and decide if the choice of products available is appropriate for them.
<b>Voluntary Agencies</b>	Voluntary Sector and Charitable Organisations	Organisations such as Citizens Advice Bureaux (CAB), National Debtline, Money Advice Trust and other charities offer advice to residents in the UK on managing their personal finances, debt,	Regulated by primarily by the Charity Commission.	The advice is provided by trained volunteers. However, the level of knowledge may be limited and the citizens may not receive as extensive a service as is required. Financial products cannot be purchased through these agencies, so there is no ‘single-window’ clearance facility

Advisory body Categories	Sector	Scope of Service	Funding, Governance and Legal basis of Advice	Scale and Constraints
		benefits, housing, employment and legal issues.		
<b>Government bodies</b>	Public Sector	Local and central government organisations offer advice on employment, benefits, social services, housing etc.	Part of government and regulated by Parliament.	Limited advice is available on a limited set of topics for a limited set of people. For citizens not on benefits etc., there is little or no benefit from these organisations.

## Response to questions AS4

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

**Response:** We believe that the Singapore Government offers a very robust approach to generic financial advice.

The government has designed a comprehensive programme which works towards increasing awareness of the benefits of financial planning and educating the citizens about the nuances of financial planning. The government programmes are easily accessible and driven through collaboration with voluntary organizations and corporations.

The Singapore government provides a comprehensive portal to its citizens. This can be found at:

<http://fcd.ecitizen.gov.sg/FamilyNCommunitySupport/EnjoyFinancialSecurity/>

This portal provides a range of information, self assessment tools, resources for self education, links to service providers and other government bodies that manage pensions etc, together with calendars for training programmes.

Persons providing financial advisory services in Singapore are governed under the Financial Advisers Act, which is administered by the Monetary Authority of Singapore (MAS). Financial advisers and their representatives are required to have the requisite qualifications and pass the relevant examinations before they are allowed to provide financial advisory services. Information on these persons and the recourse guidelines are clearly defined by the government.

## Response to questions AS6

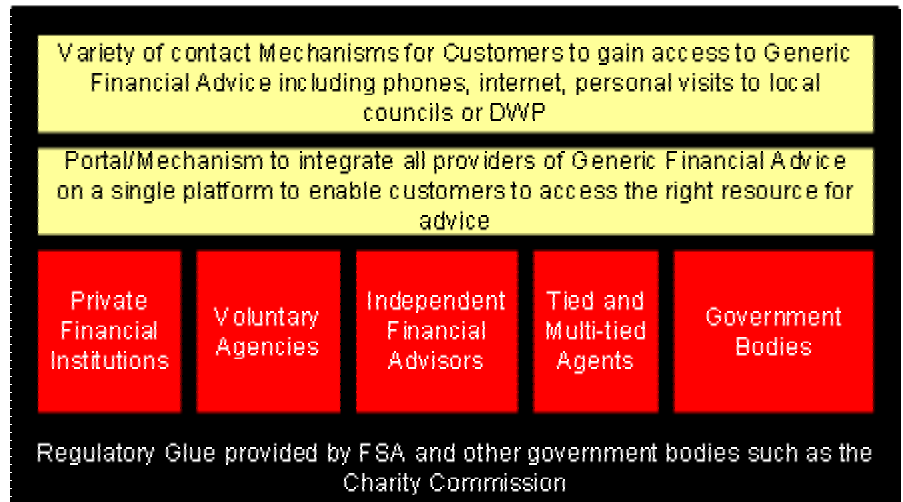
**Question:** Do you consider the current infrastructure could deliver the kind of generic financial advice provision envisaged by this review? Or is a new structure required?

**Response:** We believe that the current infrastructure for delivering financial advice provides a robust enough foundation for the implementation of a national strategy. However, we believe that this foundation needs to be enhanced with a range of services that improve accessibility and co-ordination among the key participants. Further, there is a need for a joint platform to implement a national strategy.

While we believe that there have been several creditable initiatives in the space of Generic Financial Advice delivery, we believe that the efforts to date are not fully co-ordinated and hence are not as effective as they could be.

We believe a certain amount of the funding in this space has to go towards identifying the best mechanisms for delivery of these services and integration of all efforts on a single platform linking all the participants and stakeholders.

**Figure 2: Integrated Model for delivery of Generic Financial Advice**



The diagram above illustrates, at a very high level, our vision of a fully integrated Generic Advice platform.

We believe that the FSA (and other regulatory bodies involved in policing the participants of the providers of advice) need to provide the guidelines and checks and balances for the provision of this service. These bodies will set the framework of such advice and monitor delivery to ensure that the interest of the citizens is protected. This will go a long way in increasing the level of trust that citizens currently place in the providers of Generic Financial Advice.

All providers of advice (identified in red) need to work with each other and be linked to each other to enable effective handover of the advice process, when required.

There is a need for a comprehensive central portal, accessible through the internet, to combine all available literature, guidelines, links into participants, FAQs, eligibility criteria, benefits etc. related to Generic Financial Advice. A portal of this kind will go a long way in increasing awareness and providing a platform for further education. We believe this fits in well with the FSA's initiative for increasing Financial Capability in UK, as outlined in the document titled Financial Capability in the UK: Delivering Change.

If the services are to reach the vast majority of the low income group families in the country, then these services need to be accessible locally and take into consideration language, ability to use technology and internet, disabilities and other circumstances that might prevent citizens from accessing services effectively.

It is our belief that local councils will provide a key entry point for these consumers.

## Strategic Issues B: What should the scope of a national approach to generic financial advice be?

### Response to Questions BS1 and BS2

**Questions:** Who should generic advice aim to serve including a view on segmentation? Are there groups it should not aim to serve and how might they be excluded or steered away?

**Response:** We agree with the government proposal (announced in January 2007) to provide free Generic Advice to all adult citizens by 2013. We believe that this is fair and equitable and will also prevent the creation of an expensive bureaucracy required to monitor eligibility criteria of a restricted service.

It is our belief that such a service needs to be universal and easily accessible. However, from a practical perspective, we believe that these services will be most accessed by the segment of population which presently does not use IFAs and other private advisory services.

We also believe that the type of financial advice needed by different segments of the population will vary widely based on the following factors:

- Income levels
- Age groups
- Family size
- Number of 'earners' in the family
- Race and cultural importance placed on longer-term financial security
- Level of proficiency in English, which is the language of choice for publication of information related to financial services products
- Educational background
- Level of awareness of financial planning
- Disabilities that might limit access and understanding of available services
- Level of access and understanding of the internet

The wide and varied market for Generic Advice that we will see as a result of the above demographic differences will require a nuanced and graded approach. To this end, we believe effective segmentation of the market and design of solutions for specific segments would be required.

We believe that economically disadvantaged groups, and groups at risk of becoming economically disadvantaged should circumstances change due to deaths or injuries, require the most urgent attention.

It is our view, however, that there is no necessity for any specific mechanism to exclude high income groups from the proposed service. This is because, in our view, demand for Generic Financial Advice as envisaged by the government is not high in this segment. We fully expect this lack of demand to result in lack of any meaningful take-up of services by this segment.

### Response to question BS3

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

**Response:** We believe that the best way of reaching the target market is through local councils, advice bureaux and benefits offices.

We are **not** proposing that the local councils should be required to develop the level of expertise necessary to dispense Generic Financial Advice. We believe that this is best left to trained experts in the field.

However, we would suggest that the infrastructure of local government and the data available to them makes them natural partners to reach the target market and provide access to the Generic Advice service. This is because:

- The group most vulnerable to the consequences of poor decision making is most likely to use the social services, benefits and other arms of local government.
- Local government bodies already provide accessible infrastructure to support successful training programmes and clinics, as well as face-to-face meetings where required.
- Local government bodies have greater experience handling grassroots change in community behaviour than financial services firms or other voluntary agencies.
- Local government bodies are driven by community welfare and social objectives, and the programme for Generic Financial Advice aligns well with the overall goals of local government.

The infrastructure of the local councils will provide an ideal go-to-market mechanism for this venture. However, this infrastructure needs to be populated with skills drawn from the Financial Services industry to ensure that the government provides high quality advice to its citizens.

## Response to BS4

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

**Response:** We believe that in order to be effective, the Generic Financial Advice should cover at least the following range of topics:

- Education about financial management and planning for long-term financial security
- Transfer of knowledge to enable an individual to assess his/her current financial situation, develop realistic financial targets and to create a roadmap to get from the present to the future
- Specialist advice about budgeting, borrowing, mortgage financing, emergency provision, protection/insurance, savings, investments, retirement planning, converting assets to income etc.
- Links to specialist and reliable service providers and information on which service providers would be best suited to deliver the required products and services.

## Response to BS5, BS6, BS7

**Question:** 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? What organisations and services should or could be expected to refer people to generic financial advice? Where should people be referred to after receiving generic advice? Should it be possible to refer people to a commercial provider? If so, how?

**Response:** It is difficult to draw the boundary between Generic and Regulated advice at this stage. The key issue, we feel, is that of trust. In order to make this programme effective, it needs to build trust. In order to build trust, the customer needs to be assured that the advice he is being given is good and that he has recourse, should he be given the wrong advice. If this advice is unregulated, the issue of liability for bad advice needs to be considered carefully and dealt with. The boundary between generic advice and regulated advice is closely linked with

the issue of liability and will need to evolve as our experience and knowledge of the service take-up increases.

To be most effective as a network, all organizations within the integrated platform of Generic Financial Advice (as shown in Figure 2) need to be able to understand each other's roles and be able to refer the individual to the right participant. A collective approach would be most effective in resolving the issues we are likely to encounter while delivering Generic Financial Advice.

In our view, after giving Generic Financial Advice, it will sometimes be necessary to refer people to specialist financial services providers to ensure that the right products and services are provided to resolve issues. This implies that the ability to refer to regulated commercial entities will be necessary to provide a full solution.

The key issue to be dealt with would be that of prevention of corruption in the process. Several questions need to be addressed including;

- How should the government prevent generic financial advisors from referring specific commercial providers in return for commercial or other advantages?
- Should there be a procurement process to identify specific suppliers at a fixed set of rates for specific services and should there be contracts in place between these service providers and the government?
- If specific suppliers were identified, would this reduce the number of options that citizens have in terms of products and services? If new products and services better suited to citizens' needs were launched, how would these be brought into the net, without going through a lengthy and expensive procurement process?

## Response to BS8, BS9

**Question:** What qualifications/training do generic financial advisers need and where could the advisers be sourced from? What are the legal implications of giving generic financial advice?

**Response:** It is our view that Generic Financial Advisers need to be as well trained as IFAs are - for the simple reason that financial advice is a matter that has a substantial social impact and affects the fortunes of families and individuals. If such a programme is to be launched and implemented successfully, then a solid foundation of trust needs to be built. Loss of trust and confidence in this service will reduce take-up and condemn this programme to failure.

The legal implication is that of liability. Assuming that the advice is free for every citizen, would it absolve the advice provider of any liability in the event that the advice led to financial loss for the recipient of the advice? At present, commercial entities and IFAs are governed by stringent regulations by the FSA. Would the same protection be extended to the recipients of Generic Financial Advice?

The recent case of Employers' Pension Schemes, where the Parliamentary Ombudsman has held the government accountable for misleading the public about the safety of occupational pension schemes, comes to mind. It raises several questions on the issue of advice related to specific products and services and the liability arising out of potential failures of recommended financial products.

We believe that even Generic Advice should only be given by professional financial advisors with adequate insurance cover to protect from such liability.

## Response to BS10

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

**Response:** We do not believe that creation of a Generic Financial Advice service would materially affect existing advice providers. This is because we believe take-up will be highest amongst the socially disadvantaged groups which presently do not use the service provided by IFAs and other commercial organizations.

Indeed, depending on the way in which the advice in the scheme is funded, existing providers of advice may see benefits from additional business (see our response to question CS4).

## Strategic Issues C. Cost and funding

### Response to CS1

**Question:** To what extent should generic financial advice be free at the point of delivery?

**Response:** The goals for the provision of Generic Financial Advice are social rather than commercial. The intent is that the effective provision of these services will reduce the overall cost to the UK economy. Further, these services are aimed at the most disadvantaged parts of our society, which are at present not using the fee or commission based advice offered by commercial organizations. If the social goals are to be realized, we believe that Generic Financial Advice should be free at the point of delivery. In other words, these services ought to be funded by the taxpayer for the eventual benefit of the overall economy.

### Response to CS3

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

**Response:** Our firm has not conducted primary research on this topic and we lack the empirical data to develop a quantified financial benefit from Generic Financial Advice. However, in our view, the quantification of the benefits of this exercise needs to take into account the following:

- Reduced defaults on debts
- Increased contributions to savings plans
- Increased contributions to pensions and insurance premiums
- Reduced reliance upon the welfare state

We believe our view is supported by two recent studies. These include the Pilot conducted by the Citizen's Advice Bureau in 2005 and the study conducted by the Resolution Foundation in 2006.

The Citizens Advice Bureau pilot was conducted in 2005. Over an 8 month period, 8 Citizens Advice Bureaux and IFAs tested out three ways of improving access to generic financial advice for people on low and middle incomes. Endowment mortgages accounted for the largest single number of enquiries (24%), with requests for pensions advice coming a close second (22%). Other issues on which advice was sought included debt, financial planning, equity release, inheritance, relationship breakdown and mis-selling of financial products.

The Resolution Foundation highlighted the financial advice gap faced by 15 million low earners in the UK in January 2006. Based on this study, proposals for a national financial advice service could be expected to boost all aspects of consumer savings.

This study states that the number of people on low to moderate incomes who invest in long-term savings and insurance products would increase if the plans are given the green light. It also says that levels of debt and credit would be reduced and that the Financial Services market would be made more sustainable. Based on just 10% of low earners acting on the advice they receive,

the research, carried out by the Deloitte Foundation, suggests that within four years of making generic financial advice available:

- New contributions to medium-term savings plans would increase by £1.5bn net;
- Pensions premiums would increase by £560m;
- Life assurance premiums would increase by £225m, and
- Credit card debt would fall by two-thirds from £2.5bn to £830m with a further £2.2bn wiped off other unsecured debts.

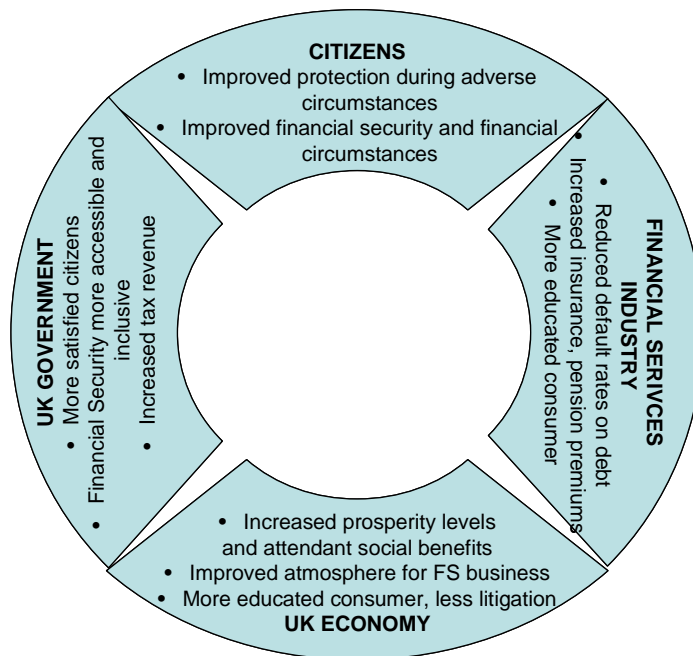
The above studies indicate that the Generic Financial Advice proposition will not just bring a social benefit for the country but could also pay for itself in the long run due to higher take-up of commercial services, resulting in higher corporation tax returns to the government.

#### Response to CS4

**Question:** 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?

**Response:** We believe that Generic Financial Advice offers benefits to a large group of stakeholders, as depicted in Figure 3 below.

**Figure 3: Benefits derived from Generic Financial Advice**



We believe that the benefits of this initiative will be felt by a wide cross-section of stakeholders including the taxpayer, the Financial Services industry, the UK economy and the UK government.

Taking each group in turn:

- Citizens will derive benefit from increased financial security and hence could potentially be charged for advice received. However, given that this service is of most use to the disadvantaged sections of our community, we feel that any such charging should be minimal and/or applied only in exceptional circumstances.
- The UK economy and government should benefit through increased prosperity levels and the attendant social benefits such as decreased crime. Tax take from Financial Services companies should also increase with

- product take up and fewer defaults. Hence, it seems fair that a significant portion of the cost of this exercise should be funded by central government.
- The Financial Services industry is likely to see an increase in revenue and a reduction in default rates, leading to increased profitability. The following options could therefore be considered:
    - A mandatory contribution to this exercise by the industry, similar to the one made to FSA for regulatory oversight; and/or
    - Voluntary charitable donations similar to the donations made to Money Advice Trust, National Debtline and Citizens Advice Bureau; and/or
    - Implementation of a framework for volunteering trained Financial Services resources to provide Generic Advice, similar to the pro bono work already donated by lawyers.

Whoever ultimately pays, when qualified financial advisors are paid for their time this need not be at “normal” commercial hourly rates. This is because:

- “Marketing” is already being done for them by the scheme; and
- Some of the supporting physical infrastructure, such as meeting facilities, will be provided by the local authority.

## Strategic Issues D: How can potential users be engaged?

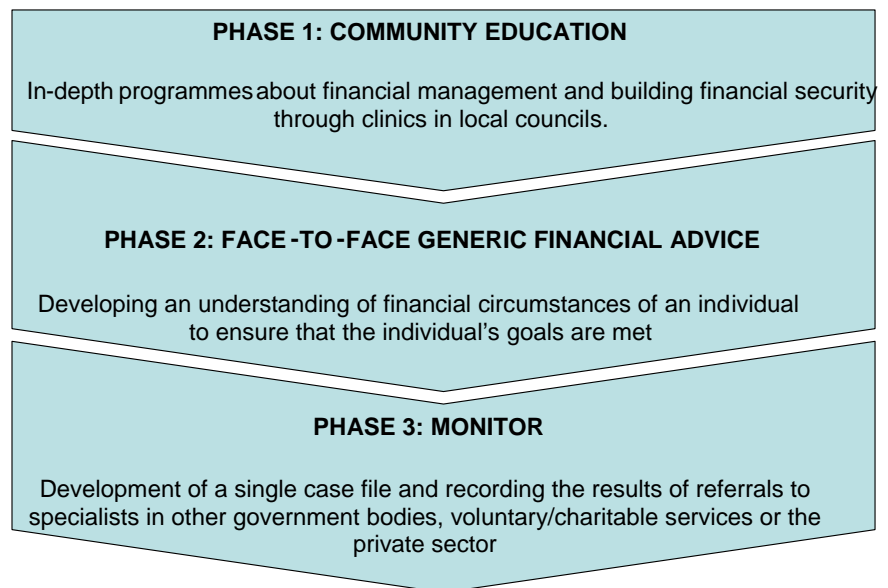
Response to DS1 , DS5

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

**Response:** We believe that the Generic Advice scheme requires a well thought out framework to ensure sufficient take-up to realise the projected benefits. Consumers should be encouraged, one step at a time, to take an active interest in their personal finances.

We present a possible framework in Figure 4 below.

**Figure 4: Possible Phased Approach to Advice**



### **Phase 1: Community Education**

This set of programmes closely co-relates to the efforts made by the FSA (Financial Capability in UK : Delivering Change). We believe that it would be extremely effective to enhance the set of educational initiatives from the FSA to include in-depth education programmes for groups in communities through clinics in local councils.

The FSA efforts will yield results by raising the general level of awareness of financial matters amongst UK citizens. The programmes in Stage 1 could build on this increased level of awareness to transfer more knowledge as well as provide tools and techniques for self-assessment and financial management. Group programmes would be an effective use of investment to reach a wider audience at a local level and identify those candidates that might be in need of more personalised advice.

Once the candidates at risk are identified, a more personalised selling of the benefits of advice might be required to convince them to use the advice services available.

### ***Phase 2: Face to face Generic Financial Advice***

In this phase, the following five stages could be considered:

- Stage 1: Develop a clear understanding of the citizen's current financial position and desired financial position, and understand his/her ability to bridge any gap given normal circumstances
- Stage 2: Define realistic financial goals, based on information collected in Stage 1
- Stage 3: Help develop a roadmap to achieve financial security using techniques such as budgeting, borrowing (including mortgages), emergency provision, protection/insurance, savings and investments (including retirement planning and converting assets into income)
- Stage 4: Enhance existing income with any benefits and waivers that the citizen might be eligible for, and finalise the roadmap
- Stage 5: Offer the citizen the choice of implementing this advice himself/herself or offer to refer him/her to the right party for further assistance (whether in the public or private sector)

### ***Phase 3: Monitor***

Once the Generic Adviser has referred a citizen to public and/or private sector bodies that can help him/her achieve the roadmap, a single case file should be opened. This would log the provision of support and provide essential background to any adviser consulted in the future.

## Strategic Issues E: What should the governance arrangements look like?

### Response to ES1

**Question:** 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)?

**Response:** We believe that the FSA is in the best position for oversight of the national Generic Financial Advice due to its knowledge and experience in oversight of the Financial Services industry and its various initiatives in the area of educating the UK citizen about long term financial security. The organization is committed to promoting efficient, orderly and fair markets, helping retail consumers achieve a fair deal and improving the Financial Services industry's capability and effectiveness in the UK. All these goals are aligned with the objectives of Generic Financial Advice.

It is also our belief that for effective delivery of the objectives of this programme, there is a need for a central delivery mechanism, which can focus on the 'running' of the programme, including duties related to:

- Defining the vision, mission, strategy and objectives of the programme
- Collecting and managing the funds for the programme
- Setting up and managing the operations of the programme
- Governance and day-to-day management
- Reporting and monitoring progress of the programme.

The organisation delivering this element could be either part of the FSA, an independent body set up with government assistance, or an extension of responsibilities of existing programmes such as Money Advice Trust or Citizens' Advice.

### Response to ES2

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

**Response:** We believe that an organization such as this needs to be accountable primarily to the citizens. A reporting line similar to the one presently used by voluntary organizations such as Citizens Advice Bureau or Money Advice Trust could be considered.

We believe that this initiative should be regulated by the FSA, very similar to the advice given by National Debtline. This is because the advice dispensed will have a significant impact on the finances of the recipients. If sufficient attention is not paid to quality of advice and the potential liability arising of this advice, then the negative publicity could have an adverse impact on the initiative.

The service could be provided by a body similar to the organization funding National Debtline (Money Advice Trust). We believe that performance targets should be set to measure the effectiveness of the outreach programme and should include the following at the minimum:

- Number of clinics held across the country
- Percentage of population the clinics could reach

- Number of one-to-one advice cases handled by the organization
- The success rate of the cases handled
- Referrals to commercial organizations and the result of these referrals in terms of products and services purchased

It also appears to us that safeguards should be set with respect to the type of advice provided. Guidelines and adherence to these guidelines should also become a major performance management factor.

### Response to ES3

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

**Response:** In addition to the role of local councils, discussed in response to questions AS6 and BS3, we believe existing infrastructure and procedures established by organizations such as Money Advice Trust and Citizens Advice Bureau could be re-used or expanded for this exercise. These bodies already have a network of relationships with the Financial Services Industry and understand the mechanisms of funding such operations.

### Response to ES4

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

**Response:**

The design of a collection and distribution mechanism will necessarily require a review of at least four key considerations, which are outlined below:

1. How are the budgets being set?
2. Where will the funding come from?
3. What compensation would be offered to professional providing Generic Advice services?
4. What is the mechanism of compensation?

The collection and distribution mechanism will depend on the responses to the above questions. In the absence of a clear view of the responses to the above, we hesitate to present a detailed model for collections and disbursements.

In the next few paragraphs, therefore, we have presented some factors that need to be taken into account for each of the above considerations.

## How are the budgets being set?

An effective collections mechanism can only be defined once the quantity of funds to be collected is determined, along with the main sources of funds. Hence this question needs to be the first factor in defining the correct collections mechanism.

From a review of recent press releases (one example is presented in <http://thescotsman.scotsman.com/business.cfm?id=78572007>), we understand that the Generic Advice Service is expected to cost the taxpayers and FS industry approximately £50million per annum.

**This is significantly lower than our own initial estimates, if an effective service is to be delivered.**

Assuming that each family requires about 2 hours of advice on an average, at a cost of £125 per hour, we need to look at a budget of approximately £250 per family. Based on our review of data from Department of Work and Pensions, about 16% of UK's population is classified as 'Low Income' group – that is, below 60% of the median income. Data can be found here: <http://www.dwp.gov.uk/asd/hbai/hbai2005/chapters.asp>.

The UK has a population of 60.2 million (<http://www.statistics.gov.uk/CCL/nugget.asp?ID=6>). This implies that approximately 10 million people would fall into 'Low Income' category. Assuming an average of 3.7 persons per family, this results in 2.6 million families that might need Generic Advice. This leads to a cost of approximately £650 million for one time advice to cover all families. Assuming that the advice is given once every three years to each family, we still would need £217 million per annum for just the advice – not counting the administrative costs of running this programme.

Should we include the 15 million people that the Resolution Foundation suggests for coverage, we would need a budget of £340 million per annum.

We believe that, at the present moment, the Generic Advice programme is heavily underfunded and that its objectives can only be partially met if funding were to remain at the level proposed.

We would strongly recommend a review of the budget and the assumptions behind the budgets to ensure that this programme is funded to fully meet its stated objectives.

## **Where will the funds come from?**

The collection mechanism will depend upon the sources of identified funds. If these were to come from the central government, the collection and disbursement mechanisms would be reasonably straightforward. However, given the nature of the programme, the magnitude of funds required and the wide range of stakeholders who stand to benefit from this programme, it does appear that multiple sources of funds ought to be tapped. Upfront, we see three sources of funds for this programmes. These are:

- Central government funds from tax revenues
- Charitable contributions
- Contributions from the FS industry

The government will need to work with the private sector and the FS industry to understand the size and nature of contributions it is willing to make to this programme. The industry could be asked to pay a certain mandatory amount to the FSA or any new body set-up for this purpose. Alternately, this could be a voluntary donation. In either case, the collections exercise would be centralized.

## **What compensation would be offered to professional providing Generic Advice services**

In our estimate, the largest costs are likely to be those incurred in procuring qualified advisors for the programme. The government will need to consider whether to pay at market rates (adjusted as stated in response CS4), whether to request voluntary contributions of time from the FS industry, or whether to use a mix of both. In all situations, the government will need to embark on a procurement exercise to define a catalogue of suppliers and agree terms and conditions, liabilities and remuneration structures for these services.

## **What is the mechanism of compensation?**

Last but not the least, the government has to consider how to allow citizens access to this service. Would the government prefer to use a 'voucher' system, by which each family is entitled to a certain amount of money every few years and they are entitled to choose from a set of pre-approved advisors? If so, what would the government do in situations where the voucher limit is not sufficient to cover the hours of advice a particular set of families need? And what would happen to unused vouchers?

The government could prefer to run this on the lines of National Debtline or Legal aid where each case is considered on its own merit, irrespective of the number of times the citizens has used the service and without regard to any upper limit of costs of managing individual cases. In such a situation, the level of funding required for the service would be more unpredictable and if the funding runs out, there might be a substantial set of families that would be left uncovered. How would these situations be managed?

The above questions need to be carefully considered before any mechanisms for disbursement and collections are considered and we would be delighted to work with the Review team to identify the answers to some of these questions.

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