

Consultation response

Thoresen Review of Generic Financial Advice
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Which? response to the Thoresen review of Generic Financial Advice

Introduction

Which? campaigns for all consumers. With around 700,000 members in the UK, we are the largest consumer organisation in Europe. Entirely independent of government and industry, we are funded through sales of our consumer magazines and books.

Which? has been a longstanding proponent of the need to ensure consumers get a better deal from the retail financial services market. The outcomes for consumers, as things stand, are not always satisfactory. Powerful producer interests often appear to override consumer needs, and this is not helped by low levels of financial literacy and lack of access to affordable advice.

We welcome the establishment of the Thoresen review as a potential catalyst for a step change in the availability of generic financial advice. Which? shares the view of many that there is a gap in the market in the provision of generic advice, and welcomes the aspiration that all UK adults should have access to such advice to help them engage with decision making.

In May 2002, Which? published a policy paper on a National Financial Advice Network (attached) which is referenced in the HMT consultation document on financial capability. We therefore do not intend to repeat in detail the policy points made, nor the evidence provided in that policy paper. However, we would like to reiterate a salient point: we believe consumer outcomes will be enhanced



by the provision of generic advice through a trusted intermediary. We believe that consumer confidence and understanding can grow, both to enhance consumer decision making, but also as a consequence to stimulate the retail market as better equipped consumers are likely to feel more capable of making purchasing decisions.

In a changing world where consumers need to interact with the financial services market more frequently, and where the transfer of risk and responsibilities from the State to the individual for self protection are evident, the creation of better equipped consumers is crucial. That transfer of responsibility creates risks for the consumer which can be mitigated by effective generic financial advice.

ANSWERS TO SPECIFIC CONSULTATION QUESTIONS

Strategic issues

Section 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?

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.)

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

Sometimes generic financial advice is a loosely used term creating the view that there is significant generic advice available today. We support the definition of generic advice in the Treasury Approach on Financial Capability. Section 4.40 of the Treasury consultation paper ‘Financial Capability: the Government’s long-term approach states’, ‘*Generic financial advice is unregulated advice which takes account of the specific financial circumstances of an individual but which does not result in a product recommendation. Generic advice helps individuals to understand their current financial position, their available choices, and how to take further steps to meet their needs.*’

As a result, care needs to be taken in evaluating information/advice currently provided by the commercial sector, which may not truly meet this definition. If the purpose of such advice is specifically to help prepare for a sale then it would



not fall within this definition. Neither is the provision of printed information with no dynamic interface capable of being described as generic financial advice. It certainly has value, but cannot take account of specific individual need. Evaluating current advice against the definition of generic financial advice is a useful starting point in this exercise.

Within the Third Sector a number of organisations give money advice unrelated to sales. This is particularly in the area of debt advice where the CAB network and Money Advice Trust provide significant services. In common with the Treasury we would support the need to keep debt advice separate, as generic financial advice is likely to be broader in scope, but may of course overlap.

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

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

The FSA has been involved for over three years in the study of financial capability including generic financial advice. There is a substantial body of information held by the FSA, including international comparisons and literature research which would give the Thoresen Review data on this question. However, as with all international comparison, care must be taken to ensure that like is being compared with like.

In addition, the Resolution Foundation has added to the knowledge base with the research it has undertaken.

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 current infrastructure is not equipped at this time to deliver the kind of generic advice provision envisaged by the review. We see a number of reasons why this is the case:

- Currently there is mistrust about the motives of the financial sector in advice provision.
- There is no proven business case for the financial services industry to deliver generic advice.



- For the Third Sector there is no current funding stream that supports a generic financial advice structure.
- Whilst the FSA has provided leadership on financial capability, it is questionable as to whether it is the appropriate body to drive forward an increase in generic advice provision.
- With the lack of a previous marketing strategy there is no overt consumer demand that has been quantified in order that we can be precise about the most appropriate infrastructure required.
- There is no one single brand currently that can be built upon.
- There is no quality control or accreditation model in place to ensure consistency and high standards of service delivery.

All of these factors lead us to believe that a new structure will be needed to deliver the step change in the provision of generic financial advice required. That is not to say that organisations currently involved in financial services, commercial and non-commercial, could not develop their structures to create the required new infrastructure.



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

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

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

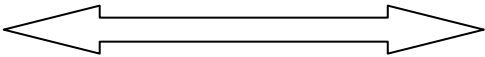
Our view is that any advice network that specifically sets out to exclude a group is unlikely to be acceptable and therefore the principles should be that the service is available to anyone who would benefit from it. However, the definition of the breadth and depth of financial advice is likely to suggest that some people would be better served by other types of advice for example debt advice and investment provider choice advice. There are existing organisations and companies that meet this demand.

It would seem likely that the population can be segmented by age, wealth and by their life stage needs. Strategic segmentation needs to be pursued so an appropriate marketing and advertising strategy is in place to meet consumer needs. Where existing provision already meets those needs in an adequate way there should be no need to duplicate, but there might be opportunities to dovetail service provision.

The generic advice network will also need to recognise that consumers will be at different stages of the decision-making process. Some will require advice about a particular need. Others may already have decided what type of product to buy and will want to know about the different ways of purchasing and how to obtain the best deal. The table below shows some examples of the range of advice that consumers might require and the differentiation between needs-based and product-based advice.



Table 1: Range of consumer advice requirements

Product type	Range of advice			
	Needs based			Product based
Insurance	I'm worried about how much money my partner will have to live on if I die or have an accident.	What are the different types of insurance available to cover my bills if I am sick?	What is the difference between income protection insurance and critical illness insurance?	I want to buy income protection insurance. How do I get the best deal? Should I take advice or buy direct?
Investments	I have received a windfall and I am not sure what to do with it.	I think I will invest my windfall, but should I think about repaying debt first?	I want to invest my windfall, but I'm not sure which product to use.	I want to buy an ISA. What different types are available and how can I get the best deal? How much will the financial advice cost?
Retirement	I am approaching retirement and have several different pensions. How do I make sure I get the most value from them?	My pension provider has sent me a letter talking about the Open Market Option. What does this mean?	I want to buy an annuity, but I'm not sure which type to buy or how to go about it.	I want to buy a single life annuity. How do I get the best deal?



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

The best way to reach the target market is to ensure the product is available at the right time at the right place and is presented in the right way. At some point in time this may be very much a demand-led service, but at the moment it can only be considered latent demand. As such considerable work is required to establish the precise usage needs and preferred methods of usage that consumers would want. The review should examine the type of organisations that the target market may already be in contact with, and explore the possibility of using these contacts to market the service to the target group.

Generic financial advice can also be part of a wider education programme. Financial life coaching and money seminars could be developed alongside the advice giving, if face-to-face, to improve general financial capability. By using the skills and experience derived from advice giving to create strategic learning programmes, increased financial capability might better be embedded.

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

Advice should be able to fully cover issues of budgeting, borrowing, emergency provision, protection, broad issues of savings, investments and pensions and an advisor would need to have some knowledge of benefits and taxation although these may be issues better dealt with in detail by other agencies. The advice process must be able to engage the consumer, establish the reasons for seeking advice, gather information, establish the objectives of the consumer, identify priorities and options, identify product types, and establish where further information, advice or sales can be found. Generic financial advice is primarily about creating appropriate client information and options.

In the Treasury consultation paper questions were asked about extending advice to areas such as utilities and telecommunications. We responded saying that we would like to see pilot work on generic advice. Whether areas such as advice about utilities or telecommunications should be included or not might best be determined after pilot work. Care, however, must be taken to avoid a dilution of programmes aimed at improving financial capability. It may be that other regulators such as OFGEM and OFCOM ought to lead specific programmes of their own and advise on this strategy. With respect to the Thoresen review we would recommend that discussions take place with these Regulators.



Personal accounts

The Government is proposing to introduce a new pension scheme, known as Personal Accounts, which will be based on the approach outlined by the Pensions Commission. The proposals were outlined in the recent White Paper, Personal Accounts: a new way to save. Which? welcomed this White Paper seeing it as an important step forward in the creation of a long-term solution which will empower savers to make additional provision for their retirement.

Personal Accounts are designed for the approximately 10 million people who are not currently participating in a pension scheme offering at least a 3 per cent employer contribution, are aged between 22 and State Pension age, and are earning over £5,000 a year. The target group tends to be younger and on moderate to low incomes. They are also more likely to be part-time workers and/or work for small employers. It is estimated that around £8 billion a year will be invested in Personal Accounts.

Which? believes the success of Personal Accounts will require good communication and advice systems. We believe that information and advice needs for consumers must be provided in two important areas.

- 1) The initial decision on whether or not to opt-out of Personal Accounts
- 2) Ongoing advice and information needs covering areas such as investment choice, additional contributions, the impact of varying contributions on their final pension pot, and ultimately the best way to access their pension fund through appropriate decumulation and annuity provision.

Members of Personal Accounts will need a trusted source of advice and guidance for any questions they may have. The challenge of delivering this may be heightened as many new members of Personal Accounts may have less experience of dealing with financial products. Which? believes that through the creation of a generic advice service it will be possible to advise members about suitability issues at the point of joining, but also ongoing issues relating to their individual needs. It is important that any discussions by the DWP on the information and advice provision for Personal Accounts are tied in to the work of the Thoresen review. Providing information and advice about Personal Accounts may be an important role for any Generic financial advice network established as a result of the review.



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

We would see regulated advice as that advice which moves the consumer into a direct relationship with a sales environment. The likely issue of debate is whether unregulated advice should stop before reference to a brand, or stop before reference to a product type. We can see some merit in generic financial advice signposting a product but not a brand. There are great risks in creating a seamless transfer from generic financial advice to a sales pitch from a commercial provider.

It may be that the boundary between regulated and generic advice is different in different product areas. For example, some product areas provided by regulated firms are not regulated products such as bank accounts.

The boundaries between generic and financial advice would need to be tightly defined if generic advisers were employed by, or had connections with, a regulated firm rather than an independent organisation. If this was the case, there would need to be some additional control on the transition between generic and regulated advice which might best be handled through the FSA. Almost certainly this would require the FSA to use their powers under FSMA to create specific rules to protect the consumer.

An important consideration will be whether information gathered by the generic financial adviser can be used by any regulated adviser during the sales process. Which? supports examination of how information gathered by the generic adviser can be stored and used by the regulated adviser to reduce the amount of time needed to complete a fact-find. Indeed, some good advisers already ask customers to provide information and fill out a form before commencing the sales interview. This reduces costs. We would see this as good practice, as the adviser would already have a basic awareness of a consumer's circumstances, and also enables the adviser to probe in more detail any information missing or sections of the form the consumer may not have understood. However, describing the information gathered by a generic adviser as a "portable fact-find" will require a certain quality standard to be met, and should never absolve the regulated adviser from the requirement to gather the appropriate level of information before selling a product.



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

Which? could foresee referrals to general financial advice from a wide variety of organisations and services. These could include government and government agencies, voluntary sector organisations, financial services companies, the FSA, and the media. Not forgetting family and friends' recommendations which are likely to be common.

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 order to retain the integrity of the generic financial advice service, it is important that there is a clear separation between generic financial advice and any commercial brand. Therefore, it would be better for people to be referred to one of the following: user-friendly comparative tables that are seen to be comprehensive and not prioritised by the commercial imperatives of any provider; a list of independent financial advisers; or Third Sector organisations where appropriate.

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

While generic advisers may not need to be regulated, it is important that they are appropriately qualified. Work has already been carried out by the Financial Services Skills Council which should be where the review starts its considerations. However the qualifications and training required are the functions of the depth and breadth of advice to be given. As a result no final decision can be taken until that is completed.

In terms of the availability of people, we have felt the system will help to dictate that. It might be that an advice service has frontline, triage-type advisers, with backroom expertise, or the advisers may all be of a certain level. When that is determined we may have more ability to consider appropriate recruitment strategies.



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

There are implications on:

- > Individual liabilities in terms of advice.
- > Corporate liabilities in terms of advice.
- > Regulatory issues where advice is offered in the commercial sector.
- > Issues around investments in terms of MFID.

Advice should be constructed so as to minimise risks to the advice giver, but not prevent consumers from being appropriately protected and able to pursue redress where suitable. The question of insurance cover against liability will need to be considered in the review.

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

We believe a functioning generic advice service would save costs for the Financial Services sector, as a reduction in marketing and distribution costs could follow. Ultimately, a more confident and engaged consumer will be more likely to increase their purchases of financial products.

The relationship to other advice services is obviously required to be settled in advance of the creation of any generic financial advice service.

Section C - Cost and funding

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

Research carried out by Which? (see attached NFAN report, May 2002) suggests that the service would need to be free or affordable. Other research carried out by Which? on pensions and Personal Accounts suggests consumers would not want to pay for a generic financial advice service, and if a charge is made this could well exclude those people who are most vulnerable and would most likely benefit from such a service.

This leads us to the view that the service should be free within the boundaries it sets. Referral to paid advice could occur if a product is to be purchased.



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)?

Resolution Foundation has produced a report on this issue. Whilst we believe there will be benefits for the financial service industry, consumers and government through the provision of such a service, there is no evidence we are aware of, at this stage that could quantify accurately what these benefits would be.

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

There are a number of potential benefits to individuals and society as a whole from increased provision of generic financial advice. These include:

- > More efficient financial decisions.
- > More confident and engaged consumers.
- > Lower potential for mis-selling of financial products.
- > Increased savings.
- > Reduction in financial exclusion.
- > Reduction in poverty and increase in asset ownership.
- > Reductions in public expenditure on welfare payments and means-tested benefits.
- > Assistance in meeting other public policy objectives.

Some of these clearly lend themselves to quantification in monetary terms.

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?

For the reasons outlined above we believe the service should be paid for by the financial services industry and the government. Both of these sources are of course ultimately paid for by citizens and consumers through taxation and payments for services.

Which? believes the use of unclaimed financial assets could be a way of funding, at least in part, a generic financial advice service. We have in the past suggested that FSA fines for mis-selling be ring-fenced to provide money for increased provision of generic financial advice and financial capability programmes. This



would ensure that the financial penalties received from firms would be reinvested in a way which improves the position of the consumer.

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?

As already stated, Which? would envisage that information acquired during the generic financial advice process could be used by subsequent regulated advisers. This would reduce the costs later in any sales process.

We recognise that there are some good advisers (many of whom may be remunerated on a fee basis) who will provide some good advice as part of the sales process. However, in costing the “generic” element of existing regulated advice processes and quantifying its benefits, it has to borne in mind that the purpose of gathering the information is typically to identify a product that can be sold to the customer, rather than to provide generic advice for which the adviser does not earn a commission.

This conclusion is supported by research undertaken by Which? and the FSA. The FSA’s research into the quality of financial advice found that while “*almost all firms held themselves out as offering a full advice service...only a third actually undertook a full review of clients’ needs and objectives. Very few gave consideration to debt repayment.*”¹ Callum McCarthy stated that the research found that “*only a third of firms’ advisers provided non commission earning advice before moving on to commission-earning transactions.*”² Which? mystery shopping research found that 37% of advisers failed to conduct an adequate fact find and 50% of pension advisers failed to establish attitude to risk.³

¹ FSA, Quality of advice processes in firms offering financial advice, July 2006

² Sir Callum McCarthy, speech, Is the present business model bust?, 16 September 2006

³ Which?, Financial advice article, September 2006



Section 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?

In answering how consumers can be engaged, the first question must be why are they not currently engaged? Any consideration needs to analyse those impediments and create solutions. Those impediments will certainly include: lack of money; low numeracy and literacy; distrust of the financial services industry; confusion about financial products; low perception of benefits of products; and lack of clarity about personal needs and goals. If there is a cost benefit analysis undertaken by the individual about assessing their personal needs then at the moment the cost (time, effort, fear, cash) appears to outweigh the perceived potential benefits.

Taking advice is not an impulse activity; consumers do not suddenly wake up in the morning with a burning desire to take financial advice. They do so for a purpose. Financial products are normally enabling products which help consumers achieve their ultimate goals such as buying a house, having enough to live on in retirement. or protecting their dependants should the worst happen. Advice is therefore a bridge to achieve this. The goal should be to reassure consumers that taking generic financial advice will save them money, help them choose the best product for a defined need, or assist in achieving their life goals. It must be positioned in a positive way.

As part of the work of the Review it will be necessary to consider the best marketing strategy to meet the goal of increasing engagement.

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 public awareness campaigns that should be looked at—drink-driving, seat belts, alcohol awareness, HIV/AIDS, immunisation—where an attempt has been made to modify behaviour. These should be considered not only in terms of marketing approach, but also in terms of the limits of awareness. In some cases the State has decided that the only remedy is through prohibition or penalties. This will have arisen as a result of an understanding of the limits of persuasion, and in setting objectives for a generic financial advice service that would be useful reference material.



The attempts to reduce smoking in the UK have been successful, but it is considered the most effective methods to discourage smoking are increasing price and statutory measures such as prohibition in public places. This demonstrates the limits to using health warnings: though being partially successful, they appear to have reached their limits of effectiveness.

Which? believes that it will be necessary to develop a robust marketing, advertising and communications strategy for generic financial advice, which explicitly identifies the benefits of engaging with financial services. It is necessary to align personal needs, experience and future aspirations in order to establish life goals that can be met through generic financial advice.

We recommend to the Review undertake a survey of key campaign groups engaged in modifying public behaviour. Bodies such as ASH and the Terence Higgins Trust might be able to provide empirical evidence on how behaviour has responded to public education and fiscal measures respectively.

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

An attractive brand must be simple, trusted and easy to recognise, and run by an independent body. It must be independent and at arms length from the government, and distinctly apart from the financial services industry. The key issue must be that a consumer has no trust barrier to negotiate in seeking generic financial advice. To assist this endorsement from existing independent brands would be helpful.

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.)

Different consumers are likely to respond to different messages and different delivery mechanisms. Some consumers are likely to respond to the internet, some to a telephone advice line and some to face-to-face engagement. It would be a mistake to assume one size fits all. We strongly recommend the Thoresen Review carries out consumer testing on mechanisms of delivery irrespective of other questions of the approach.



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

It is likely that the face-to-face advice would be attractive to some consumers. The principle must be that the advice should meet the lifestyle and life stage needs of the individual. Face to face advice could be delivered in places such as supermarkets, shopping centres, the workplace libraries, town halls, schools, sure start programmes, prisons, universities and colleges, social clubs, advice centres and housing estates. Taking advice to the people in this way could have the advantage of minimising the need for new properties to operate from, whilst at the same time maximising the footfall of any target groups. What is important is that any service delivered in a variety of settings should be clearly branded so as to indicate consistency and quality of service and information delivery.

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

We believe generic financial advice provision could lead to an empowerment of consumers which would both reduce their liability to mis-selling, through greater knowledge but also create a higher level of confidence so as to make appropriate decisions for their financial futures. Generic financial advice provision does need to be seen in the context of the wider financial capability agenda of the Government.



Section 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)?

Which? believes a generic financial advice service requires an umbrella body for the purposes of accreditation, quality control, advice to government, and relationship with regulators and FOS, as well as the possibility of direct service delivery. Therefore, we are drawn to the idea of an independent body which is arms length from the FSA, but has a direct relationship. It needs to be a national body but if required could have regional satellites. We would envisage a NDPB (Non-Departmental Public Body) being the most appropriate structure and striking the right balance between independence and accountability. There would need to be sufficient consumer representation on the board of the NDPB to ensure the needs of consumers were placed at the heart of a generic financial advice service.

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

The organisation running the generic financial advice service will need to be made accountable for running the scheme in the best interests of consumers, within the framework and budget set through discussions between the Government, consumer groups and the financial services industry. The generic financial advice service should be accountable to Parliament through the Treasury Select Committee and be expected to produce an annual report to Treasury Ministers.



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

We envisage two different types of models for any new delivery body, although there is the potential for creating a mix of the two. We do not have any fixed view at this time and more discussion is needed within the Review about this.

- 1) **Quality control and funding model:** The delivery body is responsible for managing service level agreements, quality assurance and providing direct funding. Other organisations submit bids to the delivery body to run advice provision in different areas or sectors. Under this model, existing advice services can bid for funds from the delivery body, although to be successful, advice services would need to be delivered under a single trusted brand.
- 2) **Direct provision model:** The delivery body is involved in direct provision of advice services in addition to operating quality control. In this model, existing services and organisations would need to work in partnership with the new directly delivered advice service.

A set of principles should be agreed to help assess which model works best. These should include:

- Impact on existing advice systems and services.
- Cost effectiveness and value for money.
- Ability to meet changing consumer needs.
- Accountability for actions.
- Coherency and brand image.
- Effectiveness in meeting wider public policy needs.

In addition, the Review may wish to consider how the delivery body for generic financial advice links to the delivery of the wider financial capability agenda, and whether it should also assume from the FSA those responsibilities of co-ordination.



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

The FSA should be required to partially fund the generic financial advice service. This may be the fairest system of collecting funding from the financial services industry, rather than through the design and implementation of a separate levy.

For the Government, there may be a role in this area for the Treasury, DTI and Department for Work and Pensions. The funds should be subject to the normal supervision by the National Audit Office through Parliament.

The distribution of the funds is dependant upon the model chosen for service delivery.