

Thoresen Review of Generic Financial Advice: Call for Evidence

Introduction

I refer to the Call for Evidence document dated March 2007 and welcome the opportunity to respond.

I am an independent actuarial and marketing consultant with over 30 years experience in the UK financial services industry. Having been a member of Standard Life's executive management team for a number of years, I set up and ran a web-based IFA business between 2001 and 2005, that not only provided telephone based generic advice but also provided significant insight into the viability of different business models and provided an understanding of the dynamics of consumer interactions and behaviour.

Other experience relevant to the Review includes being adviser to the Actuarial Profession's inquiry into the provision of financial information and advice in 2001, the author of "*Consumers' Attitude to Risk*", a report published in 2004 and the author of the report "Generic Financial Advice- evaluating commercial approaches" published in December 2006 by Resolution Foundation.

This most recent report was based on an extensive programme of consultations and research with industry practitioners and other interested groups and included over 45 hours of interviews with 35 organisations or individuals. Many of the questions in the "Call for Evidence" document are answered in the report so I have extracted passages from that report in answering the questions.

Other questions are answered based on my commercial experience, especially in developing internet and telephone based advice models.

Question AS1

Because there are hundreds of organisations of different types offering various forms of generic advice, I feel that it is important to concentrate on a number of key organisations. These split into two main types, both of which should be used in your benchmarking study.

1. During my research for Resolution Foundation it became clear that the experiences of organisations such as CABx, The Pension Advisory Service, National Debtline and NHS Direct gave the greatest insight into how generic financial advice might be delivered. Their operational models are well worth studying.
2. In addition to the large number of banks, building societies, insurance companies and IFA firms that offer elements of generic advice on their own websites, there are a number of even more important websites that are currently a primary source of generic advice to millions of consumers each month. The way such websites interact with consumers gives an important insight into how any web-based element of a generic advice service operational model might be developed.

The websites tend to split between the high volume (in terms of visitors to the website) commercial websites and the low volume non-commercial websites. The commercial sites include:

- Media information websites: Most of the national newspapers have websites offering a range of services including product comparisons, generic information, transactional capabilities, news, market reports, portfolio tracking, interest calculators, currency converters and other tools. The style and content of these sites reflect the readership of the newspapers that own them.
- Financial comparison websites: This sector is dominated by companies such as *Moneysupermarket*, *Moneyextra*, *Uswitch*, *Confused* and *Moneyexpert*. The sites vary from purely transactional platforms (with minimal generic information), to information-rich, highly interactive sites.

The commercial websites create significant revenue streams from customer activity on those websites.

The non commercial websites include:

- 'Money advice' websites: Examples of this type of website include FSA website *Moneyaidbare.info* and NIACE website *Moneymatterstome.co.uk*. Some of these sites receive funding from providers but they are not intended to be commercially viable in their own right. Although they are a useful source of advice, most of these sites are accessed by relatively few people (compared with the commercial websites). By their very nature, these sites provide a service without any intention (or need) to generate revenue.

Question AS3

Generic financial advice is any form of impartial (non-regulated) information or advice on financial matters that helps a consumer to understand their financial circumstances, the choices available to them and how to take action to address their priorities. Critically it does not involve giving recommendations about specific products or providers but allows consumers to make a more informed decision.

Question AS5

All work undertaken by Resolution Foundation is highly relevant for the review.

Question AS6

The current infrastructure is capable (and should be used) for delivering some elements of the provision. In particular,

- Specialist service provision relating to debt and pensions should be delivered by an expansion of existing National Debtline and TPAS services respectively.

- Any supply of face to face generic advice should be delivered by an extended CABx. Service.

Because insurance companies, building societies and banks are unlikely to deliver generic advice except where such advice is likely to lead to a product sale, all web-based and telephone generic advice (excluding specialist advice) should be delivered by a new organisation.

Question BS1

The provision should target all those for whom existing advice services are not readily accessible. In particular, it should target those that are not prepared to pay for financial advice or are not commercially attractive to IFA firms.

Question BS2

In practice it will be impossible to exclude any segments of the population because any new service should be easily accessible. However, consumers that are found to require specialist advice can be immediately referred to IFA firms or existing debt and pension advice services. This limits the range of advice provided by the new generic advice service, but doesn't limit the volume of people accessing the service.

Question BS4

Based on the Resolution Foundation's research, four different types of advice are identified:

Types of advice

- **Product purchase:** People need access to information and advice when they want to purchase a financial services product. For example, they may not know which product to consider, how to compare product pricing or source products, or may need help in understanding product information and application forms.
- **Life stage transition:** When people get married, start a family, retire or experience some other major transition in their lives, they often need assistance to help them deal with the financial implications.
- **Crisis-related:** People who find it hard to meet their normal expenditure, especially debt repayments, or who suffer a sudden loss of income or an unforeseen expense as a result of job loss, accident, divorce, death of spouse, or some other traumatic event, often need guidance to assist them.
- **Planning and budgeting:** Better financial management may involve, for example, reviewing income and expenditure or checking interest rates. Consumers may not know how to do this or lack access to the tools and information they need.

All crisis-related advice and any specialist advice within the other three advice types should be referred to existing advice organisations. The new generic advice service should expect to have to deal with all other calls for advice.

Within each of the different advice types, the nature of the advice required varies significantly from individual to individual. In summary:

- Consumers tend not to categorise different forms of advice. In particular, they will not generally distinguish between generic advice and regulated advice. Information and advice are also synonymous for most people. For most consumers, 'advice is advice'.
- At one extreme, the nature of the advice may be very basic. People may simply require reassurance that their understanding or thinking is correct or might only require answers to straightforward questions such as how a product works, how to complete forms, how to evaluate options or how to get further help.
- At the other extreme, the advice needed may be much more detailed. For example, people may require a holistic review of their financial situation and circumstances to help them understand their financial position, identify their needs and plan their finances accordingly.

The questions asked by consumers vary significantly. Understanding the different types of question that may be asked under the auspices of 'advice' is important when considering the viability and scale of any generic financial advice service.

I strongly recommend that any new generic advice service is built slowly, initially utilising as many existing advice services as possible and piloted in a few geographical areas. Scale and volume should increase organically as the service becomes well known and has built credibility.

Question BS5

No "fool-proof" boundaries can be drawn because most consumers will not differentiate between the different forms of advice that they receive. This means that safeguards need to be in place to protect both consumer and adviser where different forms of advice are being delivered. On the basis that a satisfactory regulatory framework already exists for regulated advice, any generic advice needs to be delivered within an agreed Code of Conduct.

I would suggest that any Code of Conduct must include:

- Any generic advice must exclude product recommendations, referral to specific product providers and referral to specific IFA firms.
- Generic advice should only be delivered by people who are not permitted by the organisation to provide regulated advice
- The consumer is always given verbal and written confirmation about the nature of the advice and its implications.
- Agreed standards for controls, monitoring and adviser training and competency schemes need to be adopted where generic advice is delivered

Question BS7

Once consumers have sought generic financial advice, it is then important that they take any necessary action as a result of that advice. Some of the main points raised by practitioners in my recent research included:

- Consumers need a trigger to act; purchases are event-driven and most people will not act without some form of help and advice.
- They also often require a '**persuader**' for them to act. This role is traditionally played by the financial services industry. The degree of persuasion required will depend on the consumer's perception of urgency.
- If advice relates to a product that provides 'instant gratification' or a 'compulsory' purchase, little persuasion is usually required. In these circumstances, the consumer has already decided to buy, so persuasion tends to focus on the purchase of a particular brand. However, if advice involves a 'voluntary' purchase, such as a savings product, the consumer might require persuasion to save and then to purchase a particular brand.

Although onward referral is critical, consumers should only be referred to a specific organisation if they ask for a specific organisation. In such circumstances, it would be helpful if the generic advice service had a directory of phone numbers and websites in order to provide specific information.

Referrals to specialist organisations such as TPAS or National Debtline must include contact information. Referrals to an IFA firm or other organisations for financial advice needs to be delivered to the consumer in an easily accessible form. The website www.unbiased.co.uk is a good point of referral for consumers with internet access. An analogous phone based service is required for those preferring phone based communication.

Question BS8

It is important that advisers have recognised qualifications. Work has been done by Financial Services Skills Council and others to define skills, competencies and training requirements. From my own practical experience I suggest it is also vital that advisers are

- Personable and engaging
- Are able to relate to many of the questions by virtue of their own personal experience

Ultimately, consumers need access to a "**trusted sense maker**"

The required qualities suggest that the most appropriate adviser is likely to be slightly older and more mature than a young school leaver or graduate. Some experience in the financial services industry also seems desirable.

The most obvious source of advisers comes from within the existing financial services sector.

Question BS10

Advice providers would not be materially affected other than their customers should be better informed. Although it is tempting to think that the adviser's fact-finding timescales can be reduced (by passing on information collected during the generic advice process), I think this is illusory because

- Advisors need to take their own responsibility for the accuracy of client information
- It would be undesirable for the generic adviser to have "introducer" status (for the reasons given in answer BS5)
- Most consumer queries don't require much data capture in order to answer the question
- Consumers will not want to provide unnecessary personal data
- Generic advice delivery times shouldn't be any longer than absolutely necessary

Question CS1

In the mass market, consumers are unlikely to pay for advice other than in very specific circumstances. Even for those who are prepared to pay, the level of payment they would consider acceptable is often uneconomic for commercial suppliers. Some third parties, typically employers, may pay for advice to be provided but this is rare.

Unless generic advice is free to the consumer at the point of delivery the service will have minimal appeal.

Question CS2

In my report "Generic Financial Advice- evaluating commercial approaches" published in December 2006 by Resolution Foundation, I concluded that the provision of generic advice by commercial organisations will continue to be limited.

I refer you to that report for the rationale underpinning the conclusion.

http://www.resolutionfoundation.org/pdfs/research_report_EvaluatingCommercialApproaches_21122006.pdf

Question CS3

The benefits will only accrue slowly but we should expect lower levels of short term debt and a reduced savings gap over time. Better informed consumers should also lead to less consumer detriment and reduced levels of complaints.

Since the provision of generic advice will be delivered concurrently with other projects that are addressing Financial Capability, the benefits of a generic advice service will be difficult to measure in isolation.

Question DS3

The most important brand values of the service are **easy of accessibility, trustworthiness, impartiality and the ability to deliver financial sense**. These brand values would be delivered by people who demonstrate an ability to act as a **trusted sense maker**.

Easy of access and impartiality will be critical elements of the service delivery.

Question DS6

Consumer behaviour will only change slowly. Consumers accessing the generic advice service should become better informed and make fewer sub-optimal decisions. However, without the intervention of a “persuader”, consumers will still be reluctant to make “voluntary” purchases even if they are known to be in their best interests. This means that generic advice in isolation is unlikely to have much impact in reducing the savings gap.

Alan Goodman

April 2007