

Association of Independent Financial Advisers
Response to the Thoresen Review of Generic Advice: Call for evidence

General Comments

AIFA supports the proposal for a national generic financial advice service. Better informed consumers make the role of a professional adviser easier and more cost efficient when providing personalised regulated advice. Consumers who have a better general understanding and awareness of financial matters are more likely to seek professional advice. But we need to be absolutely clear about what the service will deliver, i.e. its scope, status, liabilities and how it interacts with regulated financial advice. We fully agree that the service needs to be re-named.

In trying to define generic financial advice (GFA), the paper states that it has come to mean "advice that is not regulated even if highly specific and personalised". This is clearly problematic and challenging. It is difficult to describe a practical example of what this might be. Part of the confusion lies with the different meanings the word 'advice' has when used in everyday language and when used in the financial services industry to define advice which is regulated. We strongly recommend that any re-naming avoids the word advice altogether.

A What is happening today, how and to whom?

IFAs currently provide generic financial advice on a daily basis to their clients. This may be at the initial stage of the relationship in order to establish a client's needs and whether or not the IFA is right for the client and vice versa or as part of an ongoing relationship. Existing clients who have received regulated advice in the past may need generic advice on other matters. IFA clients may not always seek regulated advice but in many instances, GFA leads to recommendations that fall clearly into regulated territory.

IFAs are participating in the FSA's 'Make the Most of Your Money' project which delivers free financial education to employees in the form of an hour long seminar in the workplace. Outside of this project, the workplace has increasingly become a place where IFAs find themselves providing an initial generic advice presentation to company employees, particularly about pension arrangements. Now that employers have significantly more responsibilities in the area of pensions since the introduction of stakeholder pensions and other more recent changes to pension legislation, increasingly they are seeking professional advisers to speak to their employees direct, with many allowing employees to opt for a one-to-one follow up, which is more likely to result in IFAs giving individual employees regulated advice.

AIFA has also participated in the project to provide pro bono advice in Citizens' Advice Bureaux which has resulted in IFAs giving generic financial advice to CAB clients. The Personal Financial Society has produced a report on the findings of the initial pilot and the results provide sufficient evidence to demonstrate that generic financial advice can be delivered by well-qualified professional advisers and that it is a much valued service. When it is apparent that clients need regulated advice, they are passed to other IFAs to avoid any possible conflicts of interest.

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

We believe that the scope of generic financial advice should broadly cover the areas set out in the GFA standards produced by the Financial Services Skills Council:

General

Income and budgeting, debt and borrowings

Protection

Savings and investments

The FSSC standards also provide helpful guidance on the process:

1. Engage with the consumer: establish reasons for seeking generic financial advice
2. Establish the consumer's key financial concerns and gather relevant information
3. Identify and agree priorities and options for the consumer to enable informed financial choices
4. Identify ways of meeting financial needs for the consumer to consider
5. Refer the consumer to further financial information or advice

The provision of generic advice on Personal Accounts (PAs) will be an essential element of the service. However, specific personalised advice on suitability of opting out of PAs goes beyond the scope of generic advice. The outcome of the decision could have such a significant impact on a consumer's financial position in retirement that it should not be made without the full consideration of the facts. This is regulated advice territory. This also raises the not inconsiderable issue of the generic advisers' exposure to liability and we therefore believe that individual advice on opting out should be ring-fenced. Advice could be delivered by qualified advisers but they would need to be remunerated and it is unlikely that sufficient numbers will want to offer the service.

More appropriate might be a regulatory carve out, exempting personalised advice on PAs specifically from the Regulated Activities Order. (We would not want an exemption to extend further than this as we believe there should be clearly defined boundaries between generic and regulated advice). People would need to know where they can access specific advice, so that within a national service

there could be a separate list of 'specialist' advisers to consider the suitability of PAs. The issue of liability would need to be addressed.

GFA should be available to all who need it. The focus should be on those who need to be encouraged to make better provision for their financial well being. It should not be allowed to become a place of last resort, dealing with emergency situations or debt/state benefit focused.

C Cost and funding

Costs need to be controlled and much will depend on how the service is delivered. Internet based tools are the most cost effective followed by telephone services, with face to face advice being the most expensive. But research has shown that the effectiveness of the service increases in line with the delivery method, i.e. face to face is the most effective and the most costly. To establish the value of the service, ideally the user should pay. But we would not wish to see cost presenting a barrier and deterring those on low income who may need the service most. A possibility could be a means-tested approach whereby those in receipt of defined state benefits would access it free with a modest charge for others.

The Government stands to gain from improved personal financial provision through a reduction in means tested benefits and should therefore be the primary funder of the service. As well as direct financial support there could be tax incentives for employers providing workplace generic financial advice. We recognise that the industry should also benefit from the service, provided there is an effective referral mechanism to encourage people to act, following the "advice". Industry funding could be delivered through a small flat rate product levy limited to a range of most frequently purchased products - e.g. the stakeholder range or any new extended range of simpler products evolving from the Retail Distribution Review.

D How can potential users be engaged?

Developing ways of engaging consumers is one of the biggest challenges for the Review. Success will depend on two key factors:

- First is awareness; making people think hard about their present and future position and recognising the need to act. This will require a hard hitting promotional campaign with some harsh realities, particularly about poverty in retirement. There is a debt culture in the UK that carries no stigma. Affordable debt is viewed as an acceptable way of life and as few of the younger generation have experienced a recession, high inflation or unemployment, the perception is that things are fine and will therefore carry on being so. Until the UK public are prepared to make sacrifices to

their lifestyles today, in order to have a more secure future, it will be difficult to change their behaviour.

- Second is confidence. The reputation of the financial services industry has suffered as has the confidence in occupation pension schemes. Many consumers are sceptical about the safety of saving in any type of pension; reluctant to save at all in a low interest rate environment; and lack both experience and confidence in investing in equity. So first there must be an awareness and/or educational campaign that people can relate to.

Some Ideas

- Comparisons of those that have planned their finance and those that have not;
- Examples of how investments can grow, particularly highlighting the benefits of tax efficient saving;
- High profile branding - the recent focus on healthy eating - "5 a day = good health" could be replicated "5 areas = good wealth". These could be debt, protection, savings, investment and retirement planning. But avoid the word pensions!

The service needs a strong brand - something instantly recognisable that the public will learn to trust. A simple term like "The Money Shop" combined with a well designed logo. A good example is the National Lottery logo.

However, the most important factor contributing to the success of a Generic Financial Advice Service is that it is a trusted source of impartial help and guidance. If a generic advice service is allowed to operate an opaque hand-off to pressurised product selling, it will fail. Consumers will learn quickly and avoid the service altogether. Adherence to the GFA standards produced by the FSCS should help prevent such an occurrence.

**AIFA
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