

Thoresen Review: Response to call for evidence

This is a personal response and does not represent the views of any of the organisations I am affiliated with. It reflects the perspective of an academic researcher and consultant working mainly in behavioural issues related to defined contribution pension schemes. It is a selective response to only the questions where I have some relevant knowledge.

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AS5:

The following book covers behavioural issues in pension plan design and has a number of relevant chapters about how individuals perceive, use and respond to financial planning information. Most of the evidence is US-based, but I believe it translates to the UK.

O. Mitchell and S. Utkus (eds) (2004) *'Pensions Design and Structure: New Lessons from Behavioural Finance'* Oxford University Press

BS4:

While the financial capability policy separates financial advice from advice on debt *problems*, it would seem that advice on debt in general has an important place in generic financial advice, given interactions between debt and saving decisions. This would suggest a 'holistic' approach to generic financial advice covering short-term saving, long-term saving, protection, and borrowing (esp. mortgage) decisions.

BS7:

The absence of some form of referral to a provider would act as a barrier to the generic financial advice being implemented by consumers, i.e. for many consumers provider selection may be as daunting as financial planning or product selection in the first place.

Evidence – eg Scott and Stein (2004) – shows that the barriers to consumers following through with financial planning activities can be quite trivial. In their case, employees emailed a direct link to a financial modelling website were significantly more likely to use it than other employees provided with the same information in a letter. Typing a web address from a letter is not difficult, but the additional effort reduced take up rates.

The point is that referral to a provider or to a means of selecting a provider removes one reason for the planning process to falter, meaning the resources spent on providing generic financial advice are more likely to result in action by consumers.

DS1:

Weber (2004) notes that individuals are more likely to respond to messages that provoke an emotional ("affective") response rather than to more factual messages that require a rational / calculating response. Most consumer advertising would seem to work on this basis. Hence emotional messages are more likely to get a response from individuals in terms of attracting them to use generic financial advice. There may be a parallel in the increasingly graphic and explicit nature of public health advertising.

DS5:

The ABI State of the Nations Saving survey shows that in the realm of pensions, employers are trusted more by individuals than are financial services companies, which in turn are trusted more than government. This would suggest a role for employers in facilitating access to generic financial advice, although not necessarily in its delivery.

DS6:

Given typical findings of inertia and consumers following '*the path of least resistance*' the key to generic financial advice changing consumer behaviour is in making sure it is easy to find and access, easy to use and easy to implement. Even relatively small barriers to use and implementation are likely to dramatically reduce the extent to which generic financial advice affects consumer behaviour.

References:

Scott and Stein (2004) chapter 11 in Mitchell and Utkus (2004)

Weber (2004) chapter 3 in Mitchell and Utkus (2004)

Mitchell and Utkus (eds) (2004) '*Pensions Design and Structure: New Lessons from Behavioural Finance*' Oxford University Press

<http://www.oxfordscholarship.com/oso/public/content/economicsfinance/9780199273393/toc.html>