

Thoresen Review of Generic Financial Advice:  
Barclays response to call for evidence

Barclays is delighted to have the opportunity to respond to the Thoresen Review's call for evidence.

We submitted a response on 13 April 2007 to HM Treasury's consultation on the Government's long-term approach to financial capability. In this, we demonstrated our commitment to providing clear and transparent consumer information, and to improving consumer financial 'know-how'.

The BBA is submitting a fuller response to this current consultation on behalf of the wider banking sector, which we fully support. This submission is intended to be complementary to the BBA's.

## **SECTION A – WHAT IS HAPPENING TODAY, HOW AND TO WHOM?**

*In this section we provide a general overview of current activity in the generic advice sector, and background on/learnings from a number of projects in which Barclays is involved. Our comments focus in particular on questions AS1 and AS6.*

### **Existing generic financial advice services**

- Barclays has worked closely with two key organisations around the delivery of financial advice: Citizens Advice and the Money Advice Trust.
- In 2005 we supported a Citizens Advice pilot investigating the delivery of generic financial advice through the Citizens Advice bureaux network. We are now funding Phase II of the pilot, which will see Independent Financial Advisers (IFAs) working pro bono to deliver generic financial advice through 25 bureaux.
- We contributed £50,000 to the total cost of the Phase I pilot. We are the largest single funder of Phase II, providing £140,000 over two years. This will provide generic financial advice to those people on low income who would not normally have a relationship with IFAs, as they would not be in the market for a fee-based service or for products which would generate commission income. The Phase II pilot will reach 25 Citizens Advice bureaux and involve an IFA providing advice by appointment at the bureau premises, usually once a week. The IFA's time is provided pro bono. The Phase I pilot showed that a mix of natural trust in the CAB network as a provider of independent advice, together with trust in the professionalism of the IFA, worked well.
- As well as Citizens Advice, we have also supported for over a decade a number of organisations providing independent debt advice, including the Money Advice Trust, National Debtline, and the Consumer Credit Counselling Service. In 2006 our support for money advice totalled over £3.5 million.

## Infrastructure around generic financial advice – existing and required

- **Joining up existing provision:** There is currently a healthy variety of financial advice available at a community level in the UK. However, this is not co-ordinated as any kind of a strategic network, and availability varies from region to region. Such advice is provided by bodies as diverse as Citizens Advice, Credit Unions, and national and local charities.
- **Evidence suggests that where this advice is joined up, even at a local level, results can be impressive:** For example, as part of Barclays Financial Inclusion strategy, we funded a recent pilot with Southwark Credit Union and Blackfriars Advice Centre, where people could drop into the debt advice agency during an open session and speak to debt advice workers or the Credit Union worker. Through this system over the year of funding, 100 new people joined the Credit Union – which meant they would have started saving, and would then also have better access to the other products offered by Southwark Credit Union such as current accounts and insurance.
- **Community-based solutions:** This consultation on a new generic financial capability system provides an opportunity to consider both how further linkages between the various community-facing organisations might be developed, and how certain specific organisations could be helped to achieve an economy of scale of provision. This is most important as our joint research with ABCUL in 2003 shows that 38% of consumers in vulnerable groups prefer to obtain financial information from within their immediate community.<sup>1</sup>
- **Barclaycard Horizons** is a three-year, £3m community programme that aims to support 50,000 disadvantaged lone parents to work their way out of debt and poverty. Barclaycard engage in this programme by working closely with Citizens Advice, the Family Welfare Association, One Parent Families and Parentline Plus. Learnings from the Barclaycard Horizons project demonstrate the importance of community-facing solutions:
  - The most effective method of reaching lone parents has been through community organisations and other agencies, such as health visitors, offering potential for joint working and referrals. Approaching the public directly through outreach has produced varying results. Improved monitoring needs to be put in place to track the effectiveness of outreach in terms of raising awareness and recruiting lone parents to the services. However, accessing the general public directly by means of posters, leaflets, and articles has been the least effective method.

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<sup>1</sup> In 2003, Barclays and the Association of British Credit Unions Limited (ABCUL) commissioned some research<sup>1</sup> analysing the target market for nine Credit Unions across England and Scotland. This provided a useful insight into the financial situation and perspectives of people living in disadvantaged communities. The research found that 38% of respondents relied on 'word of mouth' to gain information on financial services – only 7% used personal experience, 16% relied on television, 12% on newspaper advertisements and 11% on direct mail. This highlights that the most effective methods of raising awareness and reaching the more disadvantaged communities are through organisations working within these communities which speak to people face-to-face, i.e. HM Government, councils, charities and community groups.

- Key success factors in getting started quickly and effectively include a well-established service, prior experience of financial delivery (for Citizens Advice bureaux) and a sizeable and relevant contact list. Other contributing factors include a high number of lone parents and organisations serving them in the area, and the status and reputation of the office.
- One of the strengths of the Horizons programme is the ability of local offices to tailor their services, for example the range and content of their sessions, to the needs of their clients. This has been valued by clients.
- **Any new generic financial advice service should be planned extremely carefully, so that it can build on identified gaps within existing structures leading to a more unified and consistent service across the UK.**
- **A strategic approach for Generic Financial Advice:** The BBA has developed a proposed strategy that we consider to contain the essential features of an effective Generic Financial Advice service. The strategy is based on a ‘three-point plan’, which suggests that a new service should:
  1. Raise public awareness and provide a route map on the Generic Financial Advice information sources available. The service should ideally be presented as a single brand to serve as a high level entry point and to build awareness, reputation and trust.
  2. Provide fundamental high level information and analysis to assist consumers in understanding and identifying their financial position – and assess their priorities and options for action. The service could be provided through a number of channels (Internet portal; telephone; face to face; literature etc) but would feature a number of common tools to ensure consistency of outcome.
  3. Assist consumers to take the appropriate next steps, based on the outcome of the assessment undertaken in stage 2. For example, this might comprise a referral to another service provider (Citizens Advice; debt advice company, Credit Union sector etc); a recommendation to consider a range of low risk financial products and/or to seek advice from their bank or other financial adviser.

## **SECTION B – WHAT SHOULD THE SCOPE OF A NATIONAL APPROACH TO GENERIC ADVICE BE?**

*As discussed above, we support the BBA’s proposed strategy for generic financial advice. In this section, we have focused our comments on some of the legal and regulatory issues that will need to be considered. Our comments focus in particular on questions BS4, BS5 and BS9.*

- The content of generic financial advice will be shaped by the circumstances of individual consumers and the nature of the service being offered. A generic service should i) be able to advise consumers both on savings and debt issues; and ii) be developed to provide as broad a choice as possible for consumers accessing information. We believe that the ‘three point’ strategic approach set out above would be best placed to deliver such a choice.

- Previous analytical work by the FSA has shown that consumers do not differentiate between regulated advice and information provided to them. Exactly where the line between regulated and generic advice should be drawn is a matter for the FSA in its regulatory capacity. However, in doing so, it must bear in mind that this boundary will be shaped by forthcoming European regulation (as noted in FSA's CP06/19 in respect of current constraints on the provision of basic advice by banks and building societies covered by MiFID).
- An analysis should be conducted into the full range of existing regulation that would apply to the main product areas likely to be covered under any generic advice service. This is important in order to understand fully the legal and regulatory implications of establishing any vehicle for the provision of generic advice. These include FSA regulation, the Banking Code and regulations covering credit products such as store cards.
- Even generic advice can still leave firms open to a charge of mis-selling, so absolute clarity of respective responsibilities at the point of 'hand-off' from the generic advice provision vehicle to providers of financial services is necessary. The Financial Ombudsman's Service needs to be completely aligned to this definition of responsibilities.
- Ideally banks and other service providers need to be able to rely on the advice provided by the telephony/face-to-face service. If they cannot do so with legal certainty, then they will need to repeat the Know Your Client process ('KYC') already conducted by the telephone adviser, which takes time, may frustrate the consumer, and may incur duplicative cost. This will not help either the underlying objectives of the service, or bring down the costs of distribution and related attempts to widen the reach of these products.
- Any solution developed under Thoresen should also bear in mind the need to stimulate demand as well as supply – please see further comments in section D.
- With regard to regulation, reference should also be made to the FSA's newsletter on DP19 of January 2003 and the FSA's feedback statement on DP19 of July 2003.

## SECTION C – COST AND FUNDING

- As outlined our answer to Section A above, we would support the development of a clear, coherent strategy that should be planned first and then costed. Ad hoc solutions risk being more expensive and less effective.
- We would also urge caution given that previous estimates of the costs of a generic service have not set out a balance between i) the set-up and operational costs, and ii) the advertising and promotion costs. For this reason we consider it particularly important to agree a strategy first, and apportion cost needs upon that.

## SECTION D – HOW CAN POTENTIAL USERS BE ENGAGED?

- Individual consumers need help and advice for a very wide range of their daily needs and lifestyles but many of these needs are not things which they are always able to articulate clearly – to themselves or to their family and friends. As a result of not being able to articulate their basic financial requirements, consumers are often unwilling to explore alternative options for financial services – and can also become confused about the different roles which financial services companies can play in their financial lives.
- The primary reason consumers use banks, in particular, is to control and manage their financial affairs in order to live the lifestyles to which they aspire. It is most important that all relevant stakeholders work together to improve the clarity and consistency of basic levels of financial information available, to meet the challenge of achieving better financial “know how” among consumers. A priority should be to identify those areas or lifecycle events where consumers are most likely to become confused and determine the best solution(s) to improve these, such as: i) better and clearer information; ii) enhancing the skills of consumers to apply the information available to them; and/or iii) providing better sources of help to ‘coach’ them to take a more active role in managing their finances.
- In terms of specific engagement mechanisms, it is difficult to comment on these until there is greater clarity about what a generic financial advice service should look like. However, based on our experience gained through Barclaycard’s Horizons programme, working with community organisations and other local agencies is more successful than approaching the public directly, not least because they already enjoy a position of trust within communities. We have also found that accessing the public directly by means of posters, leaflets, and articles has been the least effective method.
- **It is important that consideration is given to the stimulation of demand for any Generic Financial Advice service.** The low levels of take-up of stakeholder – or ‘Sandler’ – financial products highlights that simply supplying a product is not enough. We would commend the work of the FSA in this area, which has already identified particular groups who might particularly benefit from greater financial capability (e.g. young adults, new parents), and particular methods of reaching them.

## SECTION E – WHAT SHOULD THE GOVERNANCE ARRANGEMENTS LOOK LIKE?

- As outlined above, we would support the development of a clear, coherent strategy that should be planned first and then costed. Development of governance structures will be a natural part of this process.
- However, a clear governance structure will be a necessary means of providing consistency across the UK, and we look forward to any part that we are able to play in the development of a governance strategy, based on our experiences.
- The BBA response to this consultation addresses governance issues in more detail.

## APPENDIX - Further information about Barclaycard's Horizons project.

### About Barclaycard Horizons

Launched in 2005, this is a three-year, £3m community programme which aims to support 50,000 disadvantaged lone parents to work their way out of debt and poverty. Barclaycard engage in this programme by working closely with Citizens Advice, the Family Welfare Association, One Parent Families and Parentline Plus.

By the end of 2006 Barclaycard Horizons had supported:

- Citizens Advice to help over 13,300 lone parents and their children: **2,237** parents attended financial literacy sessions, **1,794** received debt advice and **around 380** staff from **43 different** community organisations benefited from financial literacy training.
- The Family Welfare Association to distribute 1,533 grants totalling £281,826 to 4,825 lone parents and their children.
- One Parent Families to provide work preparation courses for 33 lone parents.
- Parentline Plus to reach nearly 12,200 lone parents and their children, with **3,439** attending local groups, 94 using the telephone helpline and 157 leaving messages on the message boards.

### Key learnings from work with Citizens Advice through Barclaycard Horizons

For Citizens Advice clients, most of the expected outcomes were relevant to less than half the sample, indicating that sessions were targeted on specific topics. The more sessions attended, the more likely participants were to experience benefits across the range of outcomes.

- Over half the sample had increased their confidence in managing finances and their knowledge and access to services. About one-third of the sample reported 'increased ability to manage finances' and better 'management of existing debt'.
- When a sample of clients were 'followed-up' three months later the interviews showed that the increase in financial capability gained at one month was largely sustained and in some cases clients had built on the benefits in the intervening time.
- A smaller minority reported 'better avoidance of debt' and indications of 'greater financial inclusion'.

### Further learnings from the wider Barclaycard Horizons programme

The Horizons Programme has shown that targeted, community facing work in financial services is highly successful:-

1. The most effective method of reaching lone parents has been through community organisations and other agencies, such as health visitors, offering potential for joint working and referrals. Approaching the public directly through outreach has produced varying results, often disappointing. Accessing the general public directly by means of posters, leaflets, and articles has been the least effective method.
2. Key success factors in getting started quickly and effectively include a well-established service, prior experience of financial delivery (in respect of Citizens Advice) and a sizeable and relevant contact list. Other contributing factors include a high number of lone parents and organisations serving them in the area, and the status and reputation of the office.
3. One of the strengths of the Horizons programme is the ability of local offices to tailor their services to the needs of their clients, and the range and content of their sessions.
4. However, while flexibility is a definite asset, past uncertainty about future funding, and in some cases a desire to spread the net widely and anxiety to reach targets, has sometimes encouraged a 'scattergun' approach to delivering services. There are considerable differences between offices in terms of the amount of one-to-one and session work carried out, with potential consequences for the effectiveness of local programmes.



## CONTACT DETAILS

We would be very happy to expand further on the matters raised in this response, if this would be of interest. For more information, please contact:

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