

## **INTRODUCTION**

This is the Chartered Institute of Personnel and Development's (CIPD) response to the call for evidence from the Thoresen Review of generic financial advice. The CIPD is the professional body for all those involved in people management and development in the UK, which has over 127,000 members.

### **Our expertise and experience**

Our response is based on the input and feedback that we have received from our online community of pay and benefit experts with an interest in public policy and from members via our 48-branch network.

The CIPD is committed to promoting the benefits of workplace financial education to employers. We have produced a free guide for organisations on this topic that examines the business case for such interventions, be it due to concerns around employee well-being and issues of financial risk or the need to communicate the employer's benefit package in a more effective way to improve levels of employee engagement. Our guide also examines what a workplace financial education scheme can cover and the various ways it can be delivered to employees.

The CIPD has also invested in research into how people learn (see *Helping people learn: strategies for moving from training to learning* and *How do people learn*) which will be of crucial importance when developing a national strategy on generic financial advice. If the content and delivery of any national education programme is developed in isolation from how people actually learn then any intervention is in danger of being still born.

The CIPD has been promoting the importance of having financially aware employees through its support of the Financial Services Authority's (FSA) "Make the most of your money" campaign and the National Association of Pension Funds' (NAPF) "Pension force". We have held events on this topic, including at our national reward conference in February. We have also written

articles on the topic for a number of publications including *People Management*.

## **OUR POSITION**

Before commenting on the review in more depth, we will restate what the CIPD believes are the roles that the state, employers and individuals should play.

### **The role of the state**

As we have stated previously, most recently in our response to the Department for Work and Pensions (DWP) *Security in retirement, towards a new pension system*, the government needs to improve the financial understanding of the population so that individuals can make informed decisions when making investment and savings decisions through supporting school and workplace financial education initiatives and by encouraging the providers of financial products to educate their customers.

The CIPD supports the initiatives undertaken by various government bodies to increase financial awareness, but believes that the overall impact of these would be improved greatly if a more strategic and integrated approach was adopted.

### **The role of employers**

Companies and not-for-profit organisations need to decide whether they should provide financial awareness programmes at the workplace. Their decision will be driven by the individual needs of the business. Our research has identified a range of such needs, including a desire to communicate the value of the benefits package more effectively to employees; to give them sufficient information to make informed choices as benefit packages become more complex and individualised; to ensure performance is not impacted by employee money worries; to reduce the risk of possible employee fraud; to cut the risk of employees suing employers for failing to provide sufficient

guidance; to reduce the future risk of employees being unable to afford to retire.

However, many small and medium sized employers (who account for around 58% of total employment) may not perceive a business case for financial education; for instance they may only provide employees benefits that they are legally obliged to and so employee communication is not a driver. In such circumstances, there probably won't be the incentive for financial service providers to offer generic financial advice through these employers. This suggests a role for the state to fill this knowledge gap, either directly or indirectly by supporting the provision of existing, or new services, provided by third parties, such as voluntary organisations, professional bodies and financial service firms.

Once people understand their personal financial situation it is **the role of individuals** to decide what, if anything, they need to do and by when, such as paying off loans, making savings or contributing to a pension.

In summary, the CIPD supports a national approach to the provision of financial education that assists employees to make informed choices. Financial education should provide a safety net. Depending on their circumstances, employers and individuals they can build on this if they wish.

To be successful, the CIPD believes that any national approach must:

- work with employers, representative organisations and professional bodies on what information should be contained within the information and the various ways in which it can be delivered, from face-to-face to web-based
- work with financial service providers on the content of the financial education programme and delivery mechanisms
- start from the individual's perspective and work back from there.
- understand how people learn and take this into consideration when helping them learn about their financial situation

## OUR RESPONSE

The CIPD's more detailed responses to the consultation are as follows:

**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?**

According to research that the CIPD carried out in support of its *Workplace financial education guide*, 23% of the 466 respondents surveyed say that they offer financial education/advice to some or all of their employees. By sector, manufacturing and production firms and private service sector companies are more likely to offer this service. By size, those employers with between 50 and 249 staff are more likely to provide such a service. By age, those with a predominantly young (18 to 29) or mature (51 years plus) are more likely to offer this to their employees.

The most popular approach is to offer free independent advice to employees; the second most popular is to provide financial education. However, it should be noted that some of this financial advice may actually be generic, rather than regulated, as some respondents may not have been able to differentiate between the two. By industry, the private sector is more likely to offer access to free independent financial advice. A minority of employers offer access to independent financial advice to employees either through a flexible or voluntary benefit scheme.

Most information is provided by an external provider (70%), followed by a joint internal/external approach (24%) and then solely internal (7%). The main parties involved in the delivery include IFAs/financial educators or consultants (78%), third-party administrators, such as pension and share plans, and HR departments (16%). Providers that we came across during our research include the FSA, NAPF, Life Academy, IFS, JP Morgan INVEST and Secondsight.

Some employers that took part in the research believe that using a commercial provider with a strong brand identity enhances the credibility of the programme in the eyes of employees. These employer initiatives were paid for by the organisation: if an employee subsequently wanted regulated advice, the individual had to pay for it themselves.

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

We are not convinced that the term “generic financial advice” is one that will engage the average employee. We prefer the term financial education. Education is an ongoing process while advice relates to a specific moment in time.

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

Our *Workplace financial education* guide plus relevant CIPD research on how people learn and helping people learn.

**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?**

We are not able to comment on whether a new infrastructure is required or not. Members do report confusion over the number of initiatives that exist to promote financial understanding and awareness at the workplace. If the existing structure is to be used, it needs to be reviewed to ensure that there is no duplication of effort or gaps in provision. The focus of any structure should be on the worlds of education, work and retirement.

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

Generic financial advice should aim to serve the UK population. The content and delivery will need to be adapted for the specific target audience, eg students, graduates, new parents or new retirees.

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

The workplace is an effective route through which to reach employees. However, this must be done in conjunction with, rather than to, employers. Organisations, especially small and medium sized firms, will only support the project if they perceive it as being beneficial to them. Some employers have their own scheme as it makes business sense for them to do so. However, where an employer only provides the minimum level of benefits, they may not see such a case. In these circumstances, financial education providers need to win over small employers by stressing the “public good” argument of having a financially aware workforce, and to work with small employers and appropriate trade and professional bodies to ensure that the information provided meets the needs of the employer as well as the employee.

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

This depends on what employees want, ie it needs to be relevant to them. Hence a ‘lifestyle’ approach may make most sense, whereby financial information is tailored to different stages of a person’s working life (as well as pre- and post-working life) so as to make it relevant to their personal circumstances. It should not be an information dump, but simply contain the essentials with links to more detailed information sources should the individual require it. The CIPD research finds that most education programmes focus on pension and annuities, pension planning and savings and investments. Other programmes also include such topics as managing borrowing/debts, child trust fund/tax credits and equity release schemes. In addition, financial education is about putting people in a position so that they can ask the right questions, finance is both complex and uncertain and there may be no one answer. And what makes sense one year may not the next. To be effective, these programmes need to be an ongoing process, not a one-off intervention.

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

We believe that regulated advice is where a specific financial product/service is being sold. Generic advice is where individuals are given enough information so that they can make informed choices but stops short of making recommendations on specific products. Advice (regulated and generic) is focused at a particular moment in time, whereas financial education is a continuous learning process.

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

Employers, unions, human resource departments, finance departments and pension departments could be expected to refer people to generic financial advice depending on the circumstances of the organisation and its employees.

**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?**

If, after personal financial education, individuals wish to review their situation then they should be referred to sources of further information, including a commercial provider. One of the case studies in our report had a session in their financial education programme on using an independent financial adviser, so that individuals knew how to use one to the best effect. While there is merit in this approach, there is an implication that any recommended provider would serve the best interests of the employee. The recommended provider would need to fulfil all regulatory and Treating Customers Fairly requirements as a minimum.

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

A regulatory or professional body should provide technical information for generic financial advisers. However, such individuals will also need communications training, ie being able to provide the information in an informative and light style so that employees are engaged with the process.

One possible source of generic financial advisers are financial service providers. However, while many presenters will have the technical expertise

they may make poor trainers if they lack the necessary communication skills. Another source are HR professionals, but while they will have the necessary skills to educate an audience about financial issues they may lack the appropriate technical expertise. Other possible professions that could provide generic financial advisers include accountants and solicitors. Outside the workplace, the FSA has had success with trained university students providing financial information to their fellow students.

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

Many employers already provide free financial education to their employees, either in-house or through an external provider. For those that don't, the extent to which they take up the national programme will largely depend on the cost.

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

Measures that are used by employers to assess the impact of financial education on their employees include: feedback from attendees; employee take-up and contribution rates (such as pensions and share plans); employee awareness of benefits; employee appreciation of the employer; employee retention; impact on 'business' measures.

Looking at this issue in the wider context, what has to be decided at the outset is what such a service is aiming to achieve. The choice of measures to assess how successfully it is being achieved will flow from this objective. A range of measures can be used, from attitude surveys, the number of Individual Voluntary Arrangements (IVA), calls to employee assistance programme help lines, complaints to financial service regulatory bodies, etc.

**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”?**

It is highly difficult to split out the costs and benefits of the fact find. Those who use it do so as a means of providing advice on specific (product) requirements. Regulated sales require this process to be rigorous to ensure

that sales reflect the needs of the customer. The generic approach would fall short of specific recommendation, but would cover similar ground. Because of the generic nature of the advice, it may be possible to automate the fact find process for the individual as well as the provision of advice. This would make for a more cost effective solution than a labour intensive one. The downside is a potential lack of engagement since the individual is effectively self selecting the fact find and what actions they take based on the feedback.

**DS1. How can consumers be encouraged to improve their financial capability and take an active interest in their personal finances?**

In the case studies we examined, employees were encouraged to attend financial education seminars by stressing how they could use their money more effectively, such as dealing with debt in a more effective way or taking advantage of the benefits offered by their employer. A similar approach could be adapted to consumers, helping them to take control of their financial life. From a work setting, one approach that appears to work is to use examples in corporate literature of work colleagues, what they have done and the positive impact that this has had on their lives.

**DS2. Are there campaigns that have effected analogous behavioural change relating to generic financial advice or other scenarios? What made them successful?**

The most successful campaigns are public health or safety ones, such as anti-smoking or seat belts. These focus on the dire consequences resulting from smoking or not wearing a seat belt. However, adopting a similar approach to financial awareness may have political consequences. It may be more appropriate to sell it to employees in a positive light, concentrating on the benefits of being more financially aware.

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

Employees would favour the workplace. However, there are operational issues that will need to be addressed with the employer (for instance in a manufacturing plant, call centre or hospital). The size of the worksite is another issue. One employer that we visited used an IFA that offered to do

home visits for those employees who had been too busy to attend the financial education seminar on the day. However, giving face-to-face advice in the home would make the provision of such a service very costly. Where small and medium sized firms do not have suitable accommodation, then the financial education provider may have to find suitable rooms. In these circumstances, it would make sense for the provider to offer financial education on a particular day or days to a number of SMEs in the area so that the number of employees covered justifies the costs.

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

The organisations that took part in our research believe that their financial education programmes are having a positive impact on employee attitudes and behaviours. We have no reason to believe that a national service would not achieve similar results so long as it delivered relevant information and it was delivered in an effective manner.

**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)?**

The Financial Services Authority may provide the structural framework for oversight as it does so already for regulated sales.