



FINANCIAL SERVICES
27 April 2007

 **ERNST & YOUNG**

Thoresen Review of Generic Financial Advice

Ernst & Young's Response to the Call for Evidence

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Thoresen Review of Generic Financial Advice
Savings and Investment Team (SAVI)
HM Treasury
1 Horse Guards Road
London SW1A 2HQ

27 April 2007

Ernst & Young's Response to the Thoresen Review Call for Evidence

We are delighted to be offered the opportunity to submit our response to the Thoresen Review Call for Evidence. As a leading provider of advisory services to the Financial Services industry, we believe we can offer many relevant insights which will help you progress your thinking on this important initiative.

We are aware that your original Call for Evidence is structured around obtaining information from organisations which are directly involved in the provision of financial products or financial advice to consumers. Although Ernst & Young do not provide products or financial advice to consumers, we do act as a business and strategic advisor to many organisations which do. In line with your recommendations, we have therefore not limited our response to the structured questions contained within the Call for Evidence, but have considered which insights we feel will be most helpful to supporting you in meeting the objectives set out in the Terms of Reference.

The scope of the areas where we have provided our insights is, of course, huge and the issues associated with it are complex. This response seeks only to give a high level overview of areas for consideration and some of the high level thinking across the sector around possible solutions. We will be delighted to give further support to the Review Team to examine any or all of the areas discussed within the Call for Evidence in further detail or to undertake analysis on behalf of the team to understand some of the key issues further. We view this as an enormously important initiative for the industry as a whole and as such Ernst & Young will be pleased to continue to take an active role.

If you have any queries regarding our response, please do not hesitate to contact me directly. I would also appreciate if you could contact me prior to making any information contained within this document public.

Yours sincerely,



Gregor Stewart
Partner, Ernst & Young

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1. Background

In January 2007, the Economic Secretary to the Treasury invited Otto Thoresen, CEO of AEGON UK, to research and design a national approach to “generic” (i.e personalised but unregulated) financial advice.

The Government believes there is a gap in the market for affordable “generic” financial advice. Lack of access can lead to poor financial decisions. A more preventative and empowered approach with consistent national coverage is needed. The Government’s long-term aspiration is for all adults in the UK to have access to high-quality generic financial advice.

Thoresen Review: Terms of Reference

To determine a range of models for achieving greater access to generic financial advice on a national scale, taking account of future developments in the FS markets and, in particular, personal accounts. To include recommendations on:

- The most effective way of serving different groups of consumers, ensuring effective targeting of those most vulnerable to the consequences of poor financial decision making, including a telephone-based point of contact and the potential for additional face-to-face services;
- Protocols for advice, acceptable to industry, the regulator and the third sector;
- Accreditation, quality control and the boundary with regulated advice;
- Branding, marketing and supporting demand through the development of an appropriate advertising campaign;
- Overall costs and assessing long-term benefits;
- Options for funding that reflect the benefits to all stakeholders of increasing financial capability over the long-term; and
- Institutional arrangements and governance.

2. Ernst & Young's response to the Call for Evidence – Where we can help

We are well placed to provide insights:

About Ernst & Young

- In addition to assurance services, Ernst & Young is a leading adviser to the financial services industry in the UK.
- We provide services to 9 of the top 10 general insurers in the UK and 9 of the top 10 life insurers.
- Our banking and investment management groups are recognised as market leaders and we provide services to most of the industry's leading players.
- As internal auditor and a regular supplier of additional services to the FSA, Ernst & Young has extensive relationships with the FSA.
- Advisory services we provide to the industry include:
 - Identification of new routes to market, including development of new advice lead consumer channels for traditional providers;
 - Cost and profitability modelling of products, channels and services;
 - Development of systems and approaches to market segmentation to improve market targeting; and
 - Assessment of the strategic fit of advisory units in provider chains to secure distribution.
- We are a global firm with offices in 131 countries and therefore have a detailed understanding of advice models used in other global Financial Service centres.

Key areas where we can support the review

The call for evidence has been sent to a range of organisations and is primarily designed to extract information from industry stakeholders directly involved in the provision of financial advice. Ernst & Young do not provide financial advice or products and as such we have not sought to respond directly to each of the questions as structured. However, our position as a leading business and strategy advisors across the financial services industry allows us to provide valuable insight which will support the objectives of the review in the following areas:

1. Segmentation of the market and understanding the needs and opportunities for the vulnerable sectors;
2. Current thinking on models and servicing mechanisms across the sector;
3. Likely impacts of potential new approaches to advice provision on key stakeholders and views on funding;
4. How consumers can be motivated to seek financial advice; and
5. Accreditation, quality control, boundaries with regulated advice and governance.

3. Ernst & Young insights:

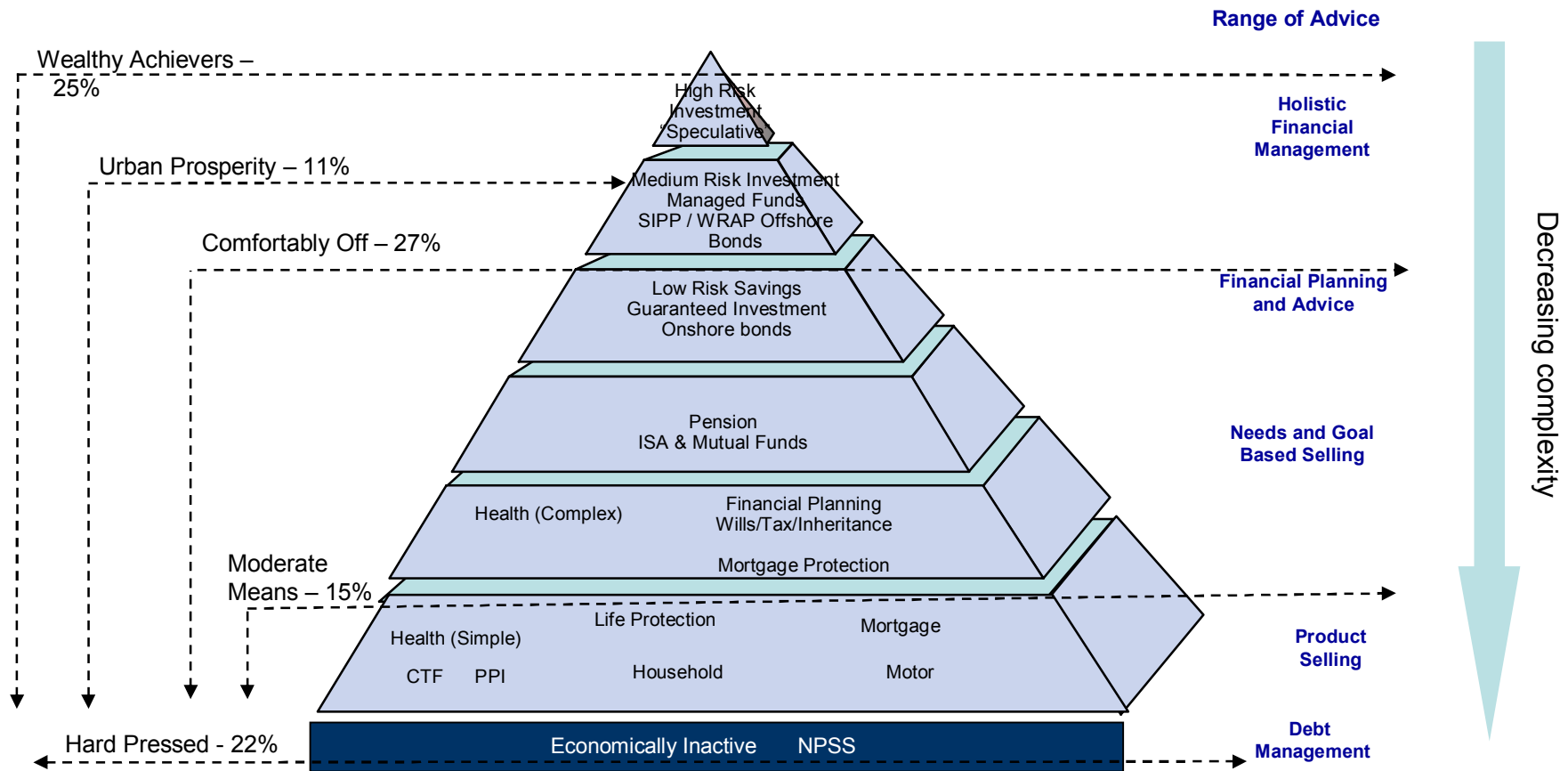
3.1. Segmentation of the market and understanding the needs and opportunities of the vulnerable sectors.

3.1 Customer segments and needs

Background and current thinking

- In our view, in order to determine a future model for advice, it is important to recognise that the market is comprised of a number of distinct customer segments and that each sector has different needs regarding their source of financial advice. The key to solving the issue therefore starts with market segmentation and the recognition that, for advice, one size does not fit all.
- There are many ways of segmenting the market relating to wealth, buying attitudes, behaviours, needs, etc., which provide key insights to support product design, marketing effort, customer services etc. but for the purpose of this review we suggest focusing primarily on wealth which is the main driver of vulnerability.
- Using segmentation based on wealth, the market is neatly divided into a number of customer groups (shown overleaf) – the true independent advice market is now migrating to the top end, leaving a bigger gap in the provision of advice at the lower levels of wealth.
- For individuals in the lower segments, their needs are often relatively simple: manage debt sensibly, protect their families from death or serious illness of money earners and get an affordable roof over their heads. The next issue tends to be ensuring adequate sums available for retirement. Relatively fewer people in these lower segments can afford to save and invest for other needs.
- The big opportunity is to reduce the regulation of advice for those in the mass market who are not looking for any investments beyond a basic pension. Generic advice could therefore be provided for debt management, life protection, mortgage cover and basic pension provision. This should not require a fully qualified advisor.

3.1 Different customer segments have different needs and therefore different ranges of solutions are applicable



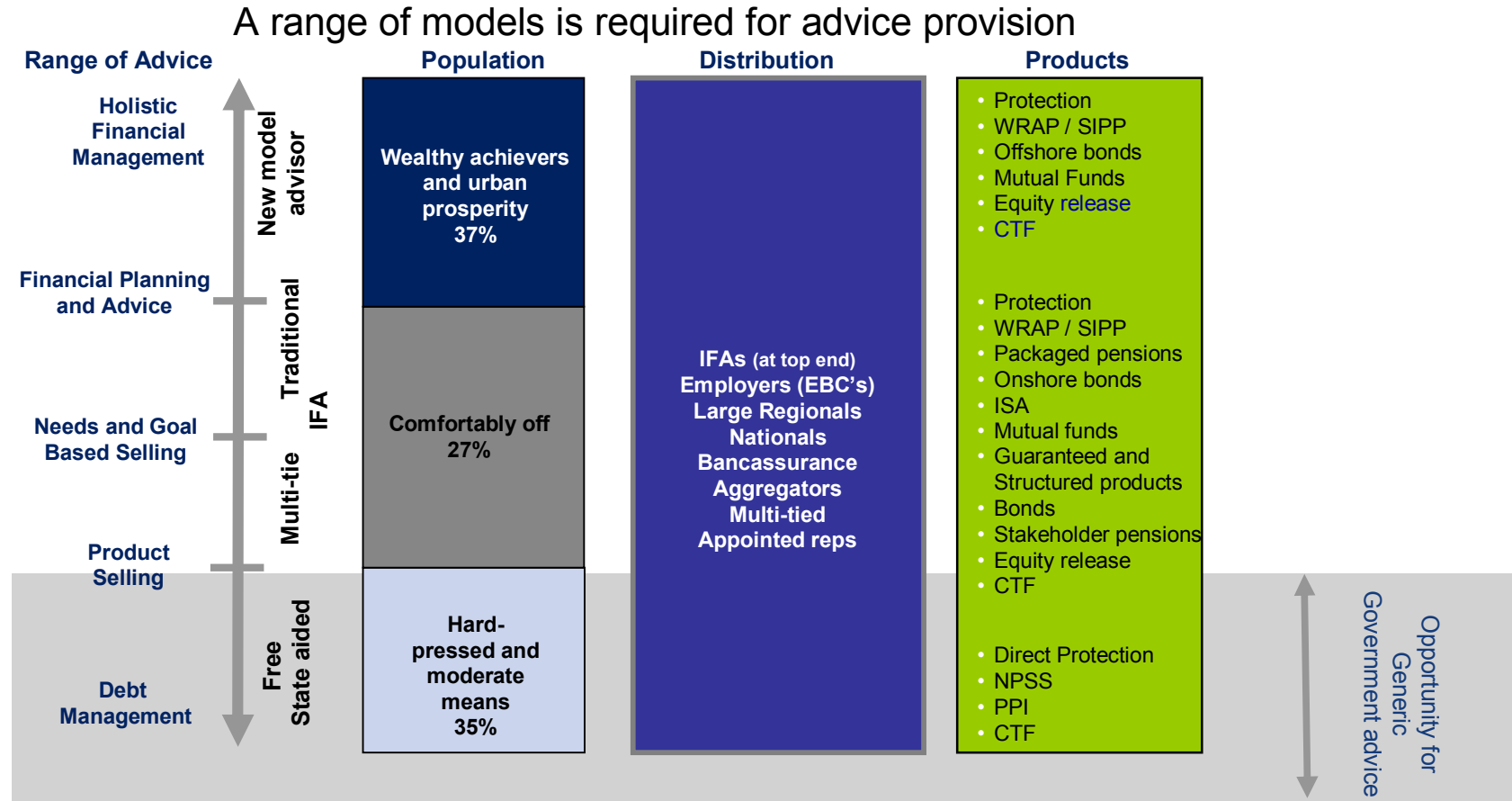
For consumers at the lower end of the scale (by wealth), the products which meet the range of solutions tend to decrease in complexity. It should therefore follow, that an advisor would not need to be qualified to the same extent as someone giving advice at the higher end of the spectrum.

3. Ernst & Young insights:

3.2 Current thinking on models and servicing mechanisms across the sector.

3.2 Effective ways of servicing segments

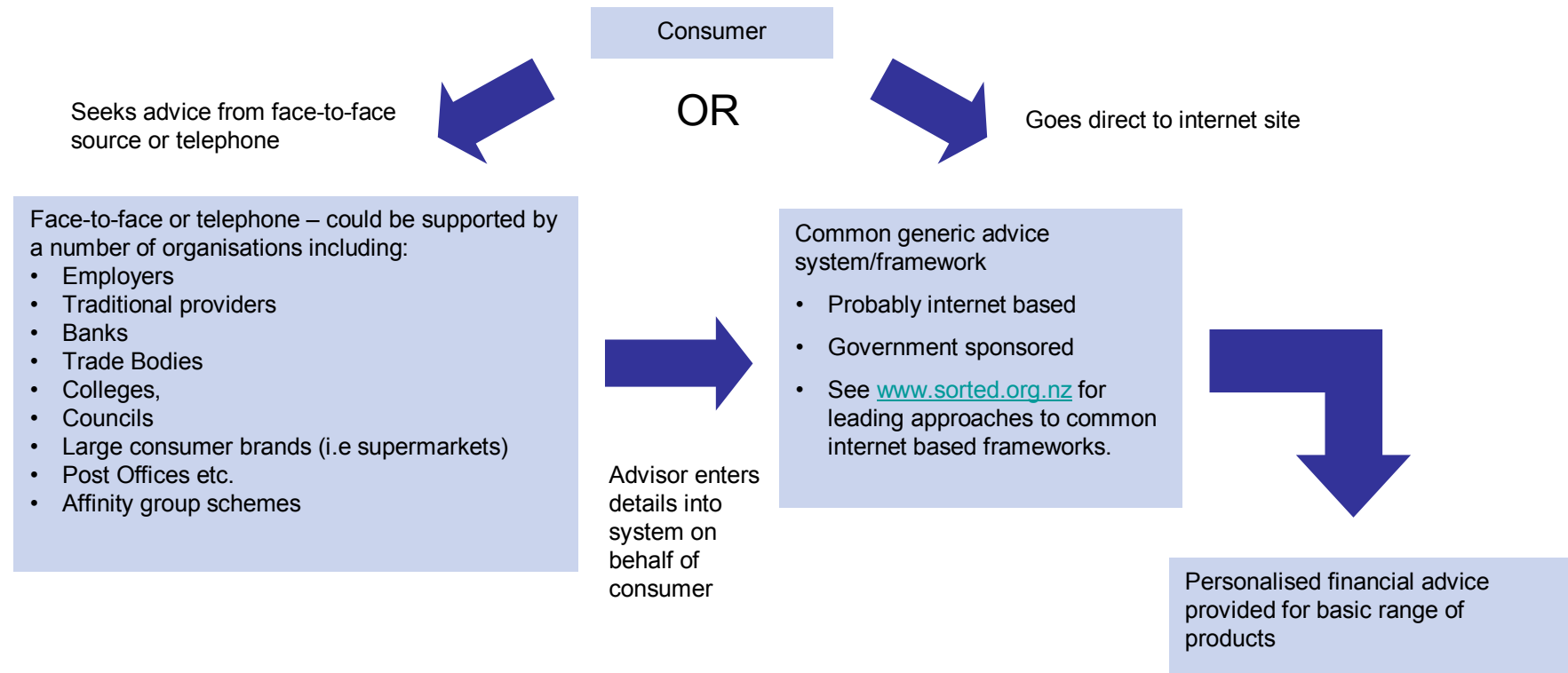
Having recognised the different segments and the different needs of those segments, it becomes clear that a differentiated approach to servicing the segments is also required. At the top end, there is a need for a new model of advisor with greater skill levels, whilst at the bottom end, there is a need for low cost/free simple advice. The knowledge requirements of advisors to each segments is therefore very different. Again, the key message is that one size will not fit all.



Different customer segments will require differing levels of advice and a range of propositions targeted at the appropriate market segments

3.2 A possible model for providing generic financial advice

The target segment most suited for generic financial advice is made up of individuals who have relatively low access to, or trust of, internet technology. Face-to-face and telephone options will therefore be key. However, any opportunity to standardise an approach to advice provision should be maximised to ensure a consistent quality of advice provision. One method of achieving this might be to co-ordinate all advice sessions through one common process, (probably internet enabled) regardless of whether the initial contact happens face-to-face, on the telephone or online.



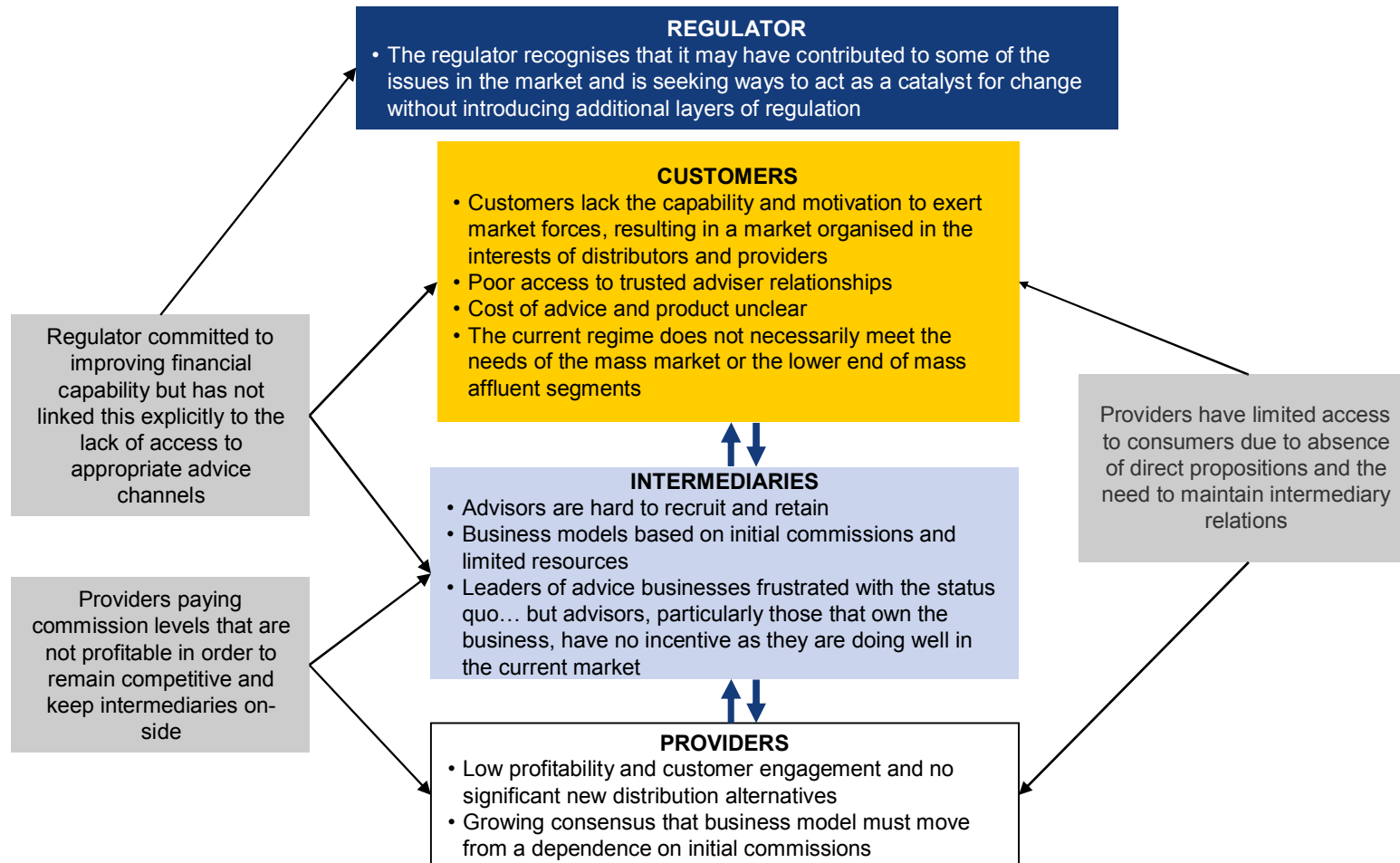
There could be one common system or process through which all advice flows, supported through numerous front-end contact points.

3. Ernst & Young insights:

3.3 Likely impacts of potential new approaches to advice provision on key stakeholders and views on funding

3.3 Key pressures and influences currently impacting stakeholders

The different stakeholders (ie, the regulator, customer, intermediaries and providers) have different competing and conflicting pressures and issues, some of which are compounded by the “one size fits all” approach to financial advice.



...but some intermediaries, particularly owner-managed businesses, are finding value within the current model suggesting they would be resistant to change

3.3 What is each stakeholder trying to achieve going forward?

The regulator:

The regulator wants to ensure that consumers are receiving advice which is relevant and appropriate to their personal situation.....treating customers fairly.

The providers:

Providers want the opportunity to provide products which generate attractive, long term profitability, without the requirement to absorb significant “costs of advice” through the current commission structure. They also want to operate in an environment which protects them from bad advice and hazardous products.

The intermediaries:

Intermediaries want the opportunity to generate a fair income for the service they provide based on their skills and experience. Again they want adequate and appropriate regulation to protect their activities.

The customers:

Consumers want to be able to access that advice in a convenient way, from a source they trust, which is appropriate for their situation at an appropriate cost.

Given the pressures and influences currently impacting stakeholders and given what they are trying to achieve, it is worth considering what the benefits of alternative approaches to advice provision might be.

This in turn, by implication, begins to direct thinking in respect of funding. It seems sensible to align funding options with those who are most likely to benefit.

If a differentiated approach based on customer segmentation were used, would all of the above objectives be supported?

3.3 Benefits and possible funding options for stakeholders

In our view, funding should be reflective of the parties deriving the benefits from the implementation of the new scheme. Some potential funding options aligned to those benefits are shown below.

Stakeholder	Benefits	Funding options	
Government/ Tax Payer	Social, Political and Financial (Pensions black hole)	Tax incentives to organisations offering/supporting service	Direct financial beneficiaries.
FS Industry	Benefits if paid to undertake administration, investment returns. Cross-selling opportunities as individual wealth grows. Opportunity grows to sell directly (more profitable without commissions)	Could provide infrastructure to support (web sites, quality control processes etc.)	
Consumer	Become wealthier through better financial management	Less reliant on benefits, pay increased tax	
Employers/ affinity groups etc.	Possible tax benefits	Provide infrastructure to support (local advisors etc.)	Some indirect benefits.
Intermediaries	Encourage people into the industry. Acts as a screening process for low value business	Could provide training grounds for generic advisors	

3. Ernst & Young insights:

3.4 How consumers can be motivated to seek financial advice

3.4 How consumers can be motivated to seek financial advice

Our experience shows that most individuals respond to only the most obvious lifestyle triggers for the need for financial advice (i.e. buying a house triggers the need for a mortgage, but becoming a parent may not immediately trigger the need for life cover). Getting people to recognise a need for financial advice and therefore take action (customer disturbance) is a significant hurdle and includes, but is not limited to, marketing effort.

Key Areas for Consideration:

- **Education** (raising awareness of the importance of financial planning) in schools, colleges, the workplace etc.
- **Development of current government initiatives**, for example requiring individual to undergo a financial health check prior to receiving benefits. Benefits are often associated with key life events i.e., bereavement, having a baby, becoming a carer, becoming sick or disabled, reaching retirement etc.
- **Marketing campaigns** need to highlight the links between key life events or life stages and financial planning. Some further considerations will include:
 - Brand – This is usually a key consideration for consumers buying financial services. However, for lower wealth segments, existing associations with financial brands, other than their existing bank, are usually weak. Much stronger associations exist with other non-FS brands (supermarkets etc.). This will impact marketing effectiveness and must be considered.
 - Cost - A multi-channel approach is required to reach a broad population (usually consisting of TV, press, outdoor marketing, online, and direct mailing). Typical campaigns launched by service providers have historically cost circa. £25m per annum over a 5 year period. (This is highly dependent on the volumes and segments which are targeted and is for illustrative purposes only.
 - Needs driven approach – Successful approaches in the financial sector are based on understanding and recognising the needs of the target segments and explaining how the product or service meets those needs, not describing what the product does and hoping the consumer makes the link with need.

3. Ernst & Young insights:

3.5 Accreditation, quality control boundaries with regulated advice and governance.

3.5 Accreditation, quality control, boundaries with regulated advice and governance.

All advisors should be accredited but it is the level of accreditation which is key. Other factors influencing the quality of advice will include remuneration mechanisms and the quality of training resulting in accreditation.

Factors likely to be influential in supporting accreditation and quality control processes:

- Advisors will need a framework for identifying which consumers may benefit from advice beyond the scope of generic financial advice and be able to outline the other options available to them.
- Advisors will need a clear framework for understanding what they are entitled to give advice on – likely to be product specific;
- Remuneration for generic financial advice should not be linked to the advice given (i.e not commission based);
- Advice should be free to consumers, although advisors may be paid by government or industry for their services (see funding);
- Advisors should be required to pass a competency test and assessed for competency periodically;
- Training and accreditation must be through an approved body;
- Models which could be useful guides might include Health and Safety officers in the work place.

Boundaries with regulated advice

- A model which might act as a useful guide for developing a framework for what defines the boundaries between generic financial advice rather than regulated advice is the Triage system for identifying different levels of emergency in the NHS.

Governance

There are currently many different trade bodies representing the financial advisor. These include: ABI, AIFA, AMI, APACS, BBA, BSA, CCTA, CML, FISA, PFS, FLA.

However, a number of these have competing roles and responsibilities with no one representing “financial advisors” as a group. This has created a significant amount of tension when defining the word “independent”.

Given the funding needs of all the respective trade bodies, a consolidation into one pure financial advisor body would make sense. This would reduce the confliction between the competitive constituents of today.

4. Ernst & Young – Further support

Each topic covered in this response is in itself an area requiring significant amounts of further analysis and investigation to progress thinking as to the right solution for generic advice provision.

We would be particularly keen to continue to support the Thoresen Review team and would be delighted to provide further detailed insights or analysis regarding any or all of the areas discussed.

In addition, services we can also provide to help progress thinking include:

- Insights from around the world into approaches to advice provision;
- “Think tank”/“incubator” workshops to accelerate idea generation;
- Accelerated proposition development and testing programmes to quickly evaluate ideas; and
- Business case modelling to evaluate costs and benefits of different options.

If you would like to discuss any part of the content of this response or wish to discuss further support from Ernst & Young, please contact the following:

Gregor Stewart

Partner
10 George St
Edinburgh
EH22DZ
Tel 0131 777 2099
E-mail: gstewart@uk.ey.com

Sec. Lorraine Ferguson
Tel. 0131 777 2192

Shaun Crawford

Partner
1 More London Place
London
SE12AF
Tel. 0207 951 2172
E-mail: scrawford2@uk.ey.com

Sec. Tanya Dequcinis
Tel. 0207 951 4401

Sonya Cunningham

Senior Manager
10 George St
Edinburgh
EH22DZ
Tel. 0131 7772139
E-mail: scunningham1@uk.ey.com

Sec. Sarah Lainchbury
Tel. 0131 777 2398

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Ernst & Young, 1 More London Place, London, SE1 2AF

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