

**ifs School of Finance response to the
Thoresen Review of Generic Financial Advice
April 2007**

The *ifs School of Finance* is a registered financial education charity catering for financial services professionals and consumers alike. We believe that providing adequate education is essential in improving the financial capability of all people. Many of the problems faced by consumers with regard to managing their finances stems from a lack of basic knowledge and understanding. We have been working to offer a solution to this problem by offering financial education qualifications at various levels for school and college students, calling for government and the DfES to put financial education on a stronger footing within the curriculum, and more recently we have launched a qualification aimed at adults.

We would be happy to work with government to improve the financial capability of consumers. This is an area where we have considerable expertise and experience, which we are very happy to share. We have responded to the areas of the call for evidence where we feel we have something to contribute.

As a general point we feel that the call for evidence illustrates the necessity of establishing the limits of generic financial advice. It might be possible to adopt something similar to the category of "advice" described in the EU Insurance Mediation. The result might be a definition as:

"the mere provision of information of a general nature to assist individuals in understanding things they should consider in relation to their present and possible future financial positions and identifying the general nature of arrangements which might protect and maximise their finances".

Clearly there should be no direct connection between the provision of generic advice and the sale of financial services products. A difficulty in recruiting financial services employees to work in this area is that many will be tied, hence charged with selling the products of a specific provider.

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

It seems that there are two categories:

- 1. Those who genuinely cannot afford to pay for advice:** These are the people who may have the most need, but also have the least ability to engage in many financial products.
- 2. Those who currently do not seek advice, but could probably afford to:** Whilst these people are not the long-term target for generic financial advice, we believe there should be an acceptance that some incentive is needed to encourage these people to begin to engage with some form of financial advice.

BS2. Are there groups it should not aim to serve and how might they be excluded or steered away?

It may be extremely difficult to prevent those who are unlikely to benefit from generic advice from accessing the service because being generic it should be suitable for all. Arguably everyone can benefit from generic advice even if that advice is to refer the individual to a more suitable source.

In order to avoid “wasting” the resource offered by generic advice on those for whom another source of information is more appropriate it must be clear what a generic adviser can and cannot do.

In practice, Individuals who are sophisticated financial products users will not choose this route as long as they understand the limited nature of the type of advice which can be given.

Clearly there will be a cost to any form of advice but that which is generic should be available at little or no cost to those at greatest need. In order to encourage use of this facility there should be a means to access the service at no personal cost. A possible approach would be for all people between the ages of 16 and 18 to be offered a voucher to exchange for a one-off financial advice session with a generic adviser. This could also apply to those in receipt of benefits. The purpose of this would be to encourage those in category 1 above to seek informed basic advice. An alternative approach, which could be suitable for those in category 2 above, may be to follow the example of Willaid. Willaid provides a ‘free’ will writing service available for one month every other year. In return, recipients are requested to make a donation to charity, with a suggested amount specified.

For those of greatest need and requiring ongoing support, there would need to be some type of test or screening to ensure the advice was reaching the right people.

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

This is a difficult area. Whilst qualifications will help to give advisers relevant competence and confidence, there is a danger that a qualification may imply a level of regulation that is not intended to exist. One way around this would be for the names of any qualifications to be carefully vetted. It could be here that the word “advice” gives rise to the greatest danger.

There are an increasing number of qualifications which may be relevant already in existence, for example the *ifs School of Finance* level 2 qualification in Personal Financial Planning. This has been mapped to the Generic Financial Advice competencies. Higher level qualifications include the Open University’s level 4 course in Personal Finance.

If non-finance specialists are to be the main deliverers of this generic advice qualifications backed by an initial assessment of competence and suitability for the role backed by regular “cpd” to maintain their competence will be required.

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

If a generic advice facility was generally available this would encourage greater levels of interest in financial capability but individuals can also be encouraged to improve their own understanding. In this context the most sensible solution would be a two-pronged strategy whereby adequate financial education was available in all secondary schools and provision made for those adults who may have missed out on such provision.

Young people are interested in their own finances and should be an immediate target group. Now is the ideal time to introduce financial capability into the school curriculum. We note with disappointment the government’s belief that a piecemeal, across-the-curriculum approach is

adequate and appropriate. We have been putting forward the argument that this is insufficient.

There is also a large group of adults for whom the offer of qualifications is an attraction as a means of understanding the subject. These include returners to work; those with little or no formal qualifications and particular groups such as offenders, etc. They can benefit not only from improving their financial capability but also opening up the world of education and learning.

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

The University of Manchester has conducted research in to the effect on students of taking a stand-alone qualification in personal finance, where the aim of the learning is made clear that it is about managing finances. This has shown that in 85% of cases, students changed the way they spend or save money. Over 50% reduced the number of credit or store cards held. This research supports previous research conducted in the US by Tennyson, S. & Nguyen, C. (2001), which showed that a specifically designated course where students know that its total aims relate to areas of financial management is more effective than courses which cover a wide range of areas. What has made the *ifs School of Finance* qualifications successful in changing behaviour is the perceived relevance of the subject. In many cases students referred to it being the first time they could immediately apply what they learned in the classroom to the real world. The research and feedback from those undertaking such qualifications indicates that there is frequently a cascade effect with students able to offer generic advice to friends and family whilst aware of the limitations of non-regulated advice.

ES2. How should any generic financial advice service be made accountable (eg targets, performance management, reporting lines etc)?

We believe very strongly that any service must be accountable and that clear measures are used to judge success. This is not always the case currently. There should be a reporting line back to the source of funding, and also to Treasury, if the programme is not funded by Treasury. We would expect the Treasury Select Committee to take a keen interest in the progress made. Measures of success would be the number of users of the service, but also a longitudinal study to measure the changing behaviours of the users.

AO1. What advice service are you or your organisation responsible for delivering (this need not be generic financial advice)?

The *ifs School of Finance* provides five different qualifications in personal finance for 14-19 year olds at school or college and additionally for adults. The qualifications are accredited by the QCA and the higher level qualifications also carry UCAS tariff points. The aims of the qualifications are to provide learners with the knowledge and confidence to manage their own finances effectively. They are designed to be practical and to make people aware of the importance of being aware of income and expenditure and the art of budgeting; the ins and outs of saving, borrowing and insurance.

AO2. How is your advice delivered (eg face-to-face, web-based or telephone)?

The qualifications are designed to be taught, but all materials for teachers and students are available online and via cd-rom, for instance for those in prison and therefore without internet access. We also provide links through to other useful resources. We rely on delivery partners such as schools, colleges, prison education services, etc. We are moving to widen the type of delivery channels we use, ie to community centres.

AO3. What is the legal, organisational and governance structure of your service?

The *ifs School of Finance* is a registered charity, incorporated by Royal Charter. In addition to financial capability qualifications, the *ifs School of Finance* provides education for those

working in the financial services industry through academic and regulatory qualifications as well as access to specialist knowledge sources and events such as seminars and conferences.

AO4. How is your service funded?

The financial capability elements of our work are partly cross-subsidised by our other activities, and partly funded through fees charged for the examinations. The qualification fees are also eligible for funding through the Learning and Skills Council.

AO5. How did you identify your customer and their needs?

Initial recognition for the need to provide financial capability qualifications came via the financial services industry. Subsequent developments have been driven by the schools, colleges and learners' recognition of the importance of being better informed.

BO1. Who is your target market, and how do you target them? How well do your actual clients match your expected target market?

For the schools programmes the target market is all 14-19 year olds in education. This is targeted via those doing the delivery. The first of the four qualifications, an AS level equivalent qualification was launched just four years ago. The GCSE equivalent qualification was launched in September 2006. For the academic year 2006-7, 6,500 students are studying one of these courses.

The adult programme is in its pilot phase.