

## Resolution Foundation response to Thoresen Review Interim Report

### Executive summary – our key messages

#### Chapter One

The Foundation welcomes the Review's intentions of carrying out a local level analysis of existing advice provision. This is very important to fully harness the potential of existing local trust relationships, brands, and market coverage of hard to reach groups. New Philanthropy Capital's forthcoming report on financial exclusion may prove a helpful starting point for the team – part of this project was to carry out a large mapping exercise of charitable organisations (including those giving advice) at a local level.

It would also be worth bearing in mind the need to simultaneously identify "trusted intermediaries" (as mentioned in 2.42) in local communities as a means of engaging groups who may not seek generic financial advice without encouragement. These intermediaries will vary from community to community.

#### Chapter Two

The analysis of a new service's target market is very well constructed. Although we strongly support universal access to a GFA service, it is worth bearing in mind that it is not those in financial crisis or who are financial excluded who are necessarily most vulnerable to the consequences of poor decision making.

"vulnerable" should be interpreted as someone having nowhere to turn should they encounter financial problems. It is targeting this form of vulnerability with preventative advice which is key to a new GFA service and something which must be made clear to the public through marketing, as well as the financial services industry and existing third sector debt advice services.

As such, it is critical that a new service is promoted amongst low to median earners, who are currently under-served by both third sector crisis/debt services, as well as the commercial sector.

Close coordination between the Review Team and those working on the financial capability and inclusion strategies is important in order to prevent duplication of effort in targeting the financially excluded and those in financial crisis at the expense of other groups in need of GFA.

#### Chapter Three

We would urge the Review Team not to rule out the need for a regulatory carve out for a new GFA service to enable it to deliver effective advice. The Interim Report's suggested wording to remain within regulatory boundaries: "most people in your situation consider life cover." (Box 3.8) has two key flaws. First, as the FSA's Perimeter Guidance states, this wording could (and very possibly) *still* be interpreted as "information with the force of a recommendation" and be viewed as a regulated activity when the adviser is discussing mortgages, insurance and investments. The second flaw is that the wording may not be strong enough to ensure people are able to take action. As such, this approach is potentially the "worst of both worlds". The Review Team must avoid the potential watering down of a new GFA service into an "information service". It is possible that a regulatory carve out may be required to enable generic advisers to do this, and as such, should not be ruled out at this stage.

The Foundation supports the Report's interim conclusion which favours a "hybrid" model of delivery, which combines a central hub delivering internet content and telephone services with a network of accredited partners delivering F2F advice. We also support the intention to consider in more detail the potential role of the commercial sector in delivering F2F generic advice as an accredited partner. There are, however, obvious risks associated with this strategy – not least the undermining of the public's confidence in a new service as impartial and separate from the sales process. A lower risk alternative to this would be the co-location of independent generic advisers in high street branches of banks and building societies, and given the potential benefits of such a strategy, this ought to be investigated further.

Regarding the level of training required for GFA staff, we would suggest the Review Team consider the benefits and disadvantages of scripted versus "off script" advice delivery, and what balance ought to be struck between these two methods to achieve the levels of cost efficiency, quality and consistency of service required. The Review's pilot projects will certainly illuminate the benefits and drawbacks of these approaches in practice. In implementing this approach, the Review Team will need to establish 1) which common queries can be resolved with standardised forms of words and checklists, and consult appropriate stakeholders to draft them, and 2) to what level advisers will need to be trained before requiring the assistance of scripted conversations (a strategic resourcing question which may be illuminated by piloting).

#### **Chapter Four**

We recognise that the governance of a new generic advice service is a crucial factor in its overall success – the take up of a new service and its perception among the public will hinge on the right body being selected to represent the GFA "brand".

The Foundation considers a newly established public body to be the most appropriate governance structure for a new advice service, for a number of reasons. However, we agree with the Report's interim conclusions that establishing a new public body is not without significant challenges – not least the need for new primary legislation to ensure this new body had sufficient executive powers to discharge its role. Nonetheless, the Foundation would urge the Review Team not to dismiss this organisational structure on the grounds that the primary legislation required represents too lengthy a delay in the establishment of a new advice service. We would suggest that an interim solution be sought to enable a generic advice service to be launched with little delay, whilst work progresses on achieving the longer term goal of creating a new public body to ultimately discharge this function.

#### **Chapter Five**

We agree with the Report's interim conclusions that the exact costs of a new generic advice service are very hard to predict. Data from the ongoing Pilots will certainly help generate a more accurate *range* of costs. However, the Foundation would suggest the Review Team not attempt to provide any more precise figures until after delivery on a more significant (e.g. regional) scale is attempted and over a longer time period.

There has been broad support (from all sectors, including figures in the financial services industry) for a funding settlement for a new GFA service which splits contributions equally between the government and industry. However it is crucial that the Review Team considers carefully how the industry's contribution might be collected. A poorly designed contribution process may have an impact not only on the overall administrative costs of a new service, but also on its reputation with the financial services industry as a whole.

The Foundation believes a new universal levy would be the most suitable funding method for a new GFA service. We would suggest that the amount paid is dependent on the size of company (based on annual turn over), with a cut-off point so that the fee might only apply to a set number of the largest regulated and unregulated financial services companies in the market. Clarity, transparency, and predictability of fee level for the financial services industry is key.

The financial services sector is a valuable source of expertise which need not go untapped when the new service is being established. In the short term, one of the most significant costs implied in delivering a new advice service will be staff recruitment and training. Whilst it might not be desirable to have financial services providers delivering GFA directly, they could make a valuable contribution by helping to train newly recruited generic advisers or act as expert consultants when training materials and scripts for advice are being developed. This could certainly act as a form of contribution in kind from the sector, at least in the short term until a system of administering financial contributions is fully established. We would also suggest the Team explore the feasibility of co-location of a GFA service in high street branches as a contribution in kind (subject to the considerations of risks outlined below).

## **Resolution Foundation Response**

### **Introduction**

The Resolution would like to congratulate the Thoresen Review Team on its Interim Report – a significant amount that has been achieved in a short period of time and we are pleased to see how thinking around the practical implementation of a national generic advice service has progressed.

We fully support the direction of travel laid out in the Interim Report, with many of the findings and analyses drawing similar conclusions to the work we carried out in 2006/07 investigating the feasibility of a national generic advice service.

We agree with the Review's interim conclusions on all of the key themes of the Report, including the assessment of possible delivery channels and governance arrangements, the identification of the service's target market, and how this group may be engaged.

We would therefore like to provide some feedback on the report, primarily to clarify our own thinking around some of the issues the Report rightly highlights as requiring further investigation before the publication of the Review's final report next year. We hope our comments will be useful in furthering the Review's thinking in these areas, and would be happy to discuss them in more detail should the Team find it useful.

### **Chapter one**

The Report's analysis of the existing sources of advice in the third and commercial sectors will prove hugely important in the eventual roll out of a national advice service. Taking advantage of existing advice networks not only reduces implementation costs – it also avoids duplication of effort, benefits from an association with trusted brands and can harness existing local infrastructure and trust relationships that would take a significant amount of time to develop from scratch.

We are very pleased to see the Report state the Team's intention to carry out a geographical analysis of existing advice infrastructure – as with any service delivered by charitable and third sector organisations, coverage can be very localised. As such, in order to achieve national coverage, a thorough local level analysis of where provision does and does not exist, and to what depth, is very important to fully harness the potential of existing local trust relationships, brands, and market coverage of hard to reach groups. New Philanthropy Capital's forthcoming report on financial exclusion may prove a helpful starting point for the team – part of this project was to carry out a large mapping exercise of charitable organisations (including those giving advice) at a local level.

In carrying out a geographical analysis of advice provision, it would also be worth bearing in mind the need to simultaneously identify "trusted intermediaries" (as mentioned in 2.42) in local communities as a means of engaging groups who may not seek generic financial advice without encouragement. These intermediaries will vary from community to community and could be sourced from a vast range of ethnic, religious, youth, women's and other community projects which operate on a micro-scale. It is important, therefore, that the localised nature of both advice delivery and intermediary/referral relationships is taken into account in order to maximise the coverage of a new national service.

### **Chapter two**

The Review's analysis of those most vulnerable to the consequences of poor decision making is particularly strong, and builds and refines our own analysis which had primarily used income as a means of identifying the target group for generic financial advice.<sup>1</sup> This work certainly uses a more sophisticated method of identification and as such it is to be expected that the target group is larger, and slightly different in its demographic make up, than our own. The data in this analysis may prove valuable in modelling the potential impact of a new GFA service on debt and specialist advice services, as a significant proportion of the group (estimated here at 3 – 3.5 million individuals) will require this more intensive intervention in the short term, whereas the overall need for these services may reduce in the longer term if preventative GFA can reduce the numbers of those falling into financial crisis.

Although we strongly support universal access to a GFA service, it is worth bearing in mind that this latter group of 3 to 3.5 million in need of debt and specialist advice services are already often targeted by financial inclusion strategies and a wide range of third sector provision. The Foundation's analysis of existing financial advice provision suggests, however, that those with slightly higher incomes and in less immediate financial crisis do not have any existing support from targeted strategies or third sector, government or commercial organisations.<sup>2</sup> This group is "vulnerable" not in the sense of being financial excluded or in crisis, but rather vulnerable in having nowhere to turn should they encounter financial problems. It is targeting this form of vulnerability with preventative advice which is key to a new GFA service and something which must be made clear to the public through marketing, as well as the financial services industry and existing third sector debt advice services.

As such, it is critical that a new service is promoted amongst this under-served group as a means of preventing more acute financial problems. Close coordination between the Review Team and those working on the financial capability and inclusion strategies is important in this context, in order to prevent duplication of effort in targeting the financially excluded and those in financial crisis at the expense of other groups in need of GFA. We would also suggest that the analysis carried out for the Review Team be fed into the government's financial capability strategy more widely, as those "most vulnerable to the consequences of poor decision making" ought to be a key target group for a range of financial capability activity.

### *Trust*

The recognition in this chapter of the poor trust relationships between the financial services industry and consumers (particularly those consumers who may benefit most from a generic financial advice service) is at the heart of a vicious circle which undermines the healthy functioning of the financial services market. Distrust of financial service providers can lead to a lack of consumer engagement with them – this lack of contact in turn may generate poor financial capability, which may in turn lead to poor financial decisions, thereby reinforcing distrust of the financial services sector. This can dampen the financial services market – disengaged and ill informed consumers have fewer financial products than they need<sup>3</sup>, and the costs of distribution are high in the financial services sector because products have to be sold to consumers rather than be bought by them.<sup>4</sup> Better informed and more confident consumers are the key to a sustainable financial services market. It is for this reason that it is in the interests of the financial services sector to promote financial capability through a generic financial advice service and other measures.

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<sup>1</sup> See *Living in the Advice Gap*, Resolution Foundation, 2006

<sup>2</sup> See *Closing the Advice Gap*, Resolution Foundation, 2006

<sup>3</sup> FSA Baseline Survey, 2006

<sup>4</sup> See *The Advice Gain*, Resolution Foundation, 2007

### *The role of the sector*

It is certainly worthwhile for the Review Team to monitor the activities of the commercial sector in delivering generic advice as a means of promoting consumer trust, not least as valuable lessons of engagement and delivery might be learnt. However, our research has found that there is little appetite among the commercial sector to provide GFA on the scale that would be required to contribute to a national service. Furthermore, pursuing commercial delivery of GFA could be a potentially high risk strategy, as it may undermine the public's perceptions of the service being impartial and independent of the sales process – features which the Review Team's own research has found to be crucial.<sup>5</sup>

We would suggest, therefore, that the Review Team engage positively with the financial services industry to agree a *financial* contribution from the sector in the first instance, and consider alternatives to commercial delivery (such as co-locating independent GFA staff in high street branches) more carefully in the medium term. We explain the potential risks associated with this strategy below, but also point out that if independence can be maintained, locating GFA services in high street branches could provide a highly visible and accessible method of delivering GFA country-wide.

*Have we correctly identified the outcomes that a successful GFA service should aim to deliver?*

The Foundation supports the Review's conclusions that budgeting and savings principles, planning ahead, and crucially consumer confidence in their own financial decision making are all valid objectives. We would suggest that these objectives be developed in conjunction with the broader outcomes of the Government financial capability strategy, in order that the two reinforce each other's key messages and activities in both are coordinated in working towards achieving broadly similar outcomes.

The Foundation's strongly held view is that a new GFA service should seek to improve consumers' financial decision making. This implies that they must *take action*. Consumers that are better informed, or more aware of financial issues, may not necessarily act on this information and improve their financial behaviours and decisions. The term "financial literacy" has often been used in the past to describe an understanding of financial services. "Financial capability" is now recognised as a *meaningful application* of that understanding – a far more valuable outcome. It is important that a new GFA service seeks to encourage, motivate and inspire people to act on the information they have been given – whether that be changing or buying a financial product, or putting a budgeting strategy in place to reduce their debts and increase their savings. Such an objective may have implications for the regulatory status of the advice being delivered – an issue we discuss below.

Once the objectives have been set, the Review Team will need to now consider how they might be measured and monitored in order to make a clear assessment of the new service's impact. This will be crucial to ensure the effectiveness of the content of the advice being delivered and the adequacy of the training being provided to advisers, as well as the cost efficiency of this government and privately funded service.

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<sup>5</sup> Resolution Foundation Response to Thoresen Review Call for Evidence, April 2007

The outcomes mentioned in the Report are based on the FSA Baseline Survey's measures of financial capability, and so certainly changes in this survey – perhaps showing an increased proportion of respondents reporting that they keep up to date with their finances, and so on – will be a valuable indicator that can be used to monitor the impact of a new service and progress towards related outcomes. The Review Team may also need to look into a new survey designed specifically to monitor the changes in people's behaviour as described in the outcomes mentioned in the report, which can be repeated more frequently than the Baseline Survey and provide results specific to the performance of the new advice service. However, relying solely on surveys as a measurement of performance has several drawbacks, not least that the measurement will be based on self-reported information and opinions rather than quantifiable and objective fact.

Unfortunately, most of the outcomes listed in this section are very challenging to quantify in their current form. We would suggest, therefore, that each of these outcomes are assigned a number of more concrete objectives which could be used as proxies to measure progress towards the outcome. For example, we would suggest that trends in financial product purchases at a macro level (e.g. an increase in take up of protection products) and individual level (e.g. people stating they have changed to a lower interest credit card) be explored as a method of monitoring people's improving financial decision making. This reflects the Foundation's view, as described above, that the ultimate objective of a new service should be to affect consumer action. This need not imply the changing or purchasing of financial products (action could be putting in place a budget, which would certainly be picked up through the FSA Baseline and other surveys), however, this is one example of where action can be measure through concrete statistical data. Our work in this area would provide a valuable starting point for an analysis of what product purchasing trends ought to be measured in this context.<sup>6</sup>

*What sort of approach would be the most effective way of engaging consumers in GFA – both initially and in the longer term?*

The Foundation strongly welcomes the Review Team's intentions to consider social marketing and other engagement strategies in further detail for the Final Report. These methods will be extremely important in engaging harder to reach sections of the target market, and can be very effective at emphasising a trusted and impartial brand. In addition, these methods are relatively low cost when compared to more traditional marketing strategies, and should therefore be explored to their full potential.

The Foundation would recommend that the Team look closely at the field of behavioural economics to draw on the body of evidence of what prompts people to act. The field is rich in both theory and examples of successful strategies which can certainly be applied to the delivery of generic financial advice - particularly regarding mass marketing and "calls to action" and ways of overcoming consumer inaction/apathy. For example, the Foundation believes analogies between financial health and physical health may be a fruitful starting point, and certainly marketing and engagement lessons can be drawn from consumer responses to public health campaigns.

The Foundation would also urge the team to look more closely at how behavioural economics principles can improve the chances of people acting on advice – the

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<sup>6</sup> See *The Advice Gain*, Resolution Foundation, 2007

second major challenge facing an advice service once a consumer has contacted them. The delivery of advice needs to be considered from a strategic point of view: the language used, how information is presented, etc., needs to be considered carefully in the light of human behaviours in order to maximise the chances of consumers understanding, responding positively to and acting upon the advice they have been given. This is will critical if the advice service is to achieve long term change to financial behaviour as outlined in the objectives listed in this chapter.

We very much welcome the Team's intention to look further into the use of "trusted intermediaries" as a means of referring people on to the advice service. There are a number of such individuals who enjoy trust relationships broadly throughout the UK, (such as GPs and staff in Post Offices and libraries.) However, as we mention above, a detailed regional mapping exercise will also be required to identify the appropriate individuals specific to communities and neighbourhoods in order to access hard to reach groups.

We would also urge the Team to consider the form of partnership arrangement that would be appropriate for different intermediaries. The Team must bear in mind that whilst a new service may gain credibility with consumers by being linked to trusted intermediaries, there is a potential that some intermediaries, even though they may be trusted, could generate perceptions of the new service that are not desirable. The "tone" of a new service must be considered – as the Team's research has found, "common sense" and "being on my side" are important criteria for prospective users of a new service. The Foundation's own research found consumers also valued a service that would be non-judgemental and not imply that the user was "in crisis" or had financial problems.<sup>7</sup> As such, the Team ought to consider whether brands and individuals associated with for example debt or legal problems, financial exclusion, or government intervention, whilst *trusted*, may not be appropriate referral partners to generate the right image of a new advice service.

### **Chapter three**

*Have we identified the appropriate parameters for GFA? What evidence exists to support a case for a "deeper" service?*

We agree with the Report's interim conclusion that much can be done within the existing boundary of FSA regulation, within which a new generic service must be firmly placed. However, it is also essential that the new service provides people with meaningful, personalised guidance, that enables and encourages them to take action. It is only in providing GFA of this nature that the service will achieve the outcomes laid out in Chapter two.

The interaction between generic financial advice and the FSA's regulatory boundary has always proved a problematic area for the implementation of a new advice service. Where this boundary lies can often be a grey area, and will vary from advice issue to advice issue. As such, it will be almost impossible to envisage, in advance of an advice service going "live", every hypothetical consumer query which may arise to challenge the regulatory boundary. As the report points out, the current pilots should provide a good initial steer on this issue. The Foundation was part of the group that reviewed the 'Advice Protocols' used for the pilots. We understand that the pilots must operate within current regulatory constraints, and very much support the approach taken in this context. Nevertheless, we would hope that a live service

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<sup>7</sup> See *Closing the Advice Gap*, Resolution Foundation, 2006

would be able to go further than the current Pilots in giving people clearer guidance that enables and encourages them to take action.

However, the Foundation foresees a risk that in order to preserve “clear blue water” between generic advice and the current regulatory boundary, the operators of a new service and generic advisers themselves will err on the side of caution and not deliver advice to the limit of the boundary. This has the potential to undermine the impact of the advice given. The rule of thumb of not giving product-specific recommendations (i.e. by not naming a particular provider) is a fairly clear method of staying within regulatory boundaries, and one which the Foundation believes is right and appropriate for this type of service. However, the “advice” element of generic advice – a crucial characteristic of a new service – is on far less certain footing. As Nick Lord explains in his paper, FSA regulation may come in to force if the service is providing “advice” rather than information on certain regulated products (i.e. investments, insurance and mortgages). He cites the FSA’s Perimeter Guidance Manual 8.28.4 which states:

*“In the FSA’s view, advice requires an element of opinion on the part of the adviser. In effect, it is a recommendation as to a course of action. Information, on the other hand, involves statements of fact or figures. In general terms, simply giving information without making any comment or value judgement on its relevance to decisions which an investor may make is not advice...”*

However, the FSA goes on to state that the context in which the information is provided is important, as it can give information “the force of a recommendation” – perhaps leading to the consumer inferring that they should act on the information provided. Nick rightly points out that this situation may easily occur when generic financial advisers are explaining the pros and cons of a particular course of action, for example if one particular course seems obviously superior to others. This in turn would constitute a regulated activity.

The Interim Report suggests that advisers would be able to outline a course of action, whilst remaining within regulatory boundaries, by using non-committal phrases such as “most people in your situation consider life cover.” (Box 3.8) This approach has two key flaws. First, as the FSA’s Perimeter Guidance and Nick Lord points out, this wording could (and very possibly) *still* be interpreted as “information with the force of a recommendation” and be viewed as a regulated activity when the adviser is discussing mortgages, insurance and investments. The second flaw is that the wording may not be strong enough to ensure people are able to take action.

As such, this approach is potentially the “worst of both worlds” – on the one hand, it may not ensure people receive a clear enough steer as to an appropriate course of action, but at the same time, may still risk crossing regulatory boundaries. Furthermore, the sense advisers may gain of walking a fine regulatory line may inhibit them from using even this non-committal wording as they err on the side of caution. This may, over time, lead to a watering down of a generic advice service into an “information service”, as a result of a fear that advisers might cross regulatory boundaries if they give a steer towards a beneficial course of action.

The Foundation would urge the Review Team to avoid this development at all costs, and, with this in mind, not to rule out the possibility of obtaining a regulatory “carve out” to enable a new service to provide advice more clearly.<sup>8</sup> In 2005, HM Treasury created an exemption from FSA regulation for debt advisers. In June this year, the

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<sup>8</sup> This would remain non-product specific

FSA stated in its Retail Distribution Review discussion paper that it would consider regulatory change to accommodate the provision of “primary advice”.<sup>9</sup> Given these similar circumstances, regulatory exemptions created to facilitate the delivery of GFA may be a feasible option.

A carve out could achieve far more clarity for advisers delivering GFA, and reduce the risk of a watering down of a new service towards the provision of information only. However, a far more important benefit is that a regulatory carve out would enable a new service to go much further in providing clearer advice and encouraging people to take action.

The Foundation explained in its response to the Review’s call to evidence, that a new advice service should, and *indeed must*, advise and steer people towards a course of action as well as encourage them to act on it. The key objective of a financial advice service is that it actually effects change – to prompt people to make better financial decisions and change their financial behaviours in the longer term. This may never be accomplished if advisers are unable to provide clear advice and encourage action on the part of the consumer.

In situations where the course of action explained is clearly the correct one, and obviously within the consumer’s interests, generic financial advisers should be able to recommend this course more firmly. A regulatory carve out would facilitate this by enabling advisers to say to the consumer not “*most people in your situation consider life cover*”, but rather “*you really should consider life cover given your circumstances*”.

We recognise, however, that some courses of action may not be so obviously recommended, though are still probably within the consumer’s interest. One could, therefore, separate the “strength” of advice provided into three tiers, depending on the issue in question:

- 1) **Advice on general classes of product to support obvious good financial practice.** Advisers would be expected to promote these as principles of good practice and strongly encourage consumers to act on these pieces of advice.

This might include: taking out life insurance for those who are married/have children/other dependents; changing products to achieve a good management of debt – shifting higher interest debt into lower interest vehicles where possible, and paying off secured and higher interest debts first; and the generation of savings – whilst taking the management of debt into account, having a goal of three to six month’s salary as liquid savings for emergencies.

- 2) **Advice on types of product which are likely to be in the consumer’s interest.** Advisers might present the pros and cons of decisions regarding these products, and suggest the most appropriate course of action in light of the consumer’s circumstances.

Issues that fall into this category may include: opening an ISA; remaining in a Personal Account (see below); and applying for a fixed rate mortgage if on a tight budget to ensure predictability of monthly outlay.

- 3) **Advice on specific products which might be appropriate for the consumer** – advice should not be provided by generic financial advisers in

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<sup>9</sup> [http://www.fsa.gov.uk/pubs/discussion/dp07\\_01.pdf](http://www.fsa.gov.uk/pubs/discussion/dp07_01.pdf), chapter 26

these circumstances. Information on product details, the pros and cons of different products, and the risks associated with courses of action can be explained, but the decision on how to act should be left to the consumer's own application of this information. Regarding products from *specific providers*, information should be provided to signpost consumers to sources of product-specific advice (e.g. IFAs) and further product-specific information (e.g. comparison websites)

There has been much debate as to the suitability of personal accounts for different individuals. Self employed, those with broken work records and those over 50 in 2012 when Personal Accounts are introduced are all commonly cited groups of people who may not see a return on a personal account.<sup>10</sup> Nevertheless, the counter argument can be made that for the majority of people, personal accounts will still be suitable and whilst may not be an optimal investment, may still provide a good return. In addition, it is clear that any pension saving is better than no pension at all – which may be the alternative for many in the target group of a new generic advice service. As such, the Review Team will have to consider carefully how advice might be given regarding personal accounts – and indeed many other long term investments – to adequately express the benefits and possible risks involved. This is all the more important given the statement in the recent Pension Bill that employers must provide information to their employees regarding the benefits and risks of remaining opted in to a personal account.<sup>11</sup>

Personal accounts fall into the second category of advice, outlined above, because whilst they will be beneficial for the majority of consumers, this may not always be the case. As such, staying in or opting out of an account cannot be recommended with certainty by an adviser. Nevertheless, an adviser may still state that it is broadly advisable for consumers to remain opted in to personal accounts, caveated by an understanding that certain personal circumstances may reduce the return on this form of pension. The Foundation carried out a seminar relating to this very issue and formulated, in conjunction with the assembled group of experts, a set of advice protocols that might guide the provision of GFA regarding the issue of personal accounts. This is attached in Appendix 1.

The clear promotion of courses of action which fall into the first category listed above, and suggestions made within the second category, should be within the remit of a new advice service: as part of its role as a “common sense” service, which is “on the consumer’s side”; and as a tool for improving the nation’s financial capability and contributing to the Government’s aims of reducing debt and creating a savings culture. It is possible that a regulatory carve out may be required to enable generic advisers to do this, and as such, should not be ruled out at this stage.

It is unlikely that the Pilots will illuminate this issue to any great extent, given that testing the regulatory boundary was not one of the four variables the pilots were intended to test. The content of the advice delivered was based on protocols, which, as we mention above, were understandably cautious. It is important, therefore, that the Review Team do not attempt to use the findings from the Pilots to resolve this issue. For example, consumers may report to be satisfied with the consultation they were given during the pilot phase. However, this does not test whether they would have been more or less satisfied if they had been given clearer guidance regarding courses of action, as opposed to the more information-led consultation they actually received. The pilots also cannot test whether consumers were more or less likely to

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<sup>10</sup> *Are Personal Accounts suitable for all?*, PPI 2006

<sup>11</sup> <http://www.publications.parliament.uk/pa/cm200607/cmbills/012/2007012.pdf>

take action – an important outcome for a new service as explained above – depending on whether they received information or more directional advice. The absence of a “control” or comparative data (i.e. comparing the relative effectiveness of advice as described above versus the advice received by consumers in the pilots) means this issue will need to be resolved with further consultation and drawing on other research. The forthcoming research from Axa may prove informative here.

*What sort of accreditation and training would be the most effective way of ensuring accuracy, quality and consistency of GFA information and guidance?*

In our Response to the Thoresen Review’s original call for evidence, the Foundation described two possible approaches to the training of generic advisers. The first is to use advice “scripts” – essentially decision trees where an adviser is given the key questions to ask a caller, and depending on the interaction of the specific responses given, can provide caller-specific recommendations. The second approach is to train advisers in depth regarding a range of generic advice topics, and allowing advice to be given “off script” – i.e. at the adviser’s discretion in response to clients’ needs.

The “scripted” approach has the advantage of reducing potential training costs, as an adviser working to a script need not have the same level of in-depth training as an adviser working independently. A scripted approach would also certainly help ensure accuracy and consistency of the content of advice being delivered, as scripts could be drafted centrally and rolled out to accredited partners or those working to contractual agreements.

However, a weakness of this approach is that it may undermine the service’s flexibility and capacity to answer questions which are “off script” and for advisers to provide spontaneous advice, as they may not be as thoroughly trained. The scripting process would have to be exhaustive to ensure all possible queries had been covered in order to reduce the risks of this occurring.

The Review’s pilot projects will certainly illuminate the benefits and drawbacks of these approaches in practice. The Foundation would suggest, however, that neither approach ought to be adopted to the exclusion of the other. Instead, a balance will need to be struck between these two methods to achieve the levels of cost efficiency, quality and consistency of service required.

One approach may be to provide certified training to all advisers working for accredited partners, over a broad range of advice areas. This training could be facilitated with the use of standardised content – such as forms of words or checklists of points that need to be covered in response to what might be common and straightforward enquiries. This could coincide with a standardised approach taken to the advice areas outlined above, where advisers are able to promote specific courses of action as financial good practice. For more complex issues (e.g. those which require the weighing of personal circumstances or those which may arise infrequently), scripts could be produced.

This approach would help ensure consistency of advice content, but also enables advisers to give advice up to a standardised level of complexity without the need to resort to scripted conversations.

The Review Team will need to establish 1) which common queries can be resolved with standardised forms of words and checklists, and consult appropriate stakeholders to draft them, and 2) to what level advisers will need to be trained

before requiring the assistance of scripted conversations (a strategic resourcing question which may be illuminated by piloting).

As we explained in our initial response to the Review's call for evidence, there are existing training and qualification standards for generic financial advisers which the new service could adopt, such as the FSSC's National Occupational Standards. These standards are designed for delivering advice without the aid of any script or decision tree, and so are quite demanding and may have significant implementation costs. We would suggest the Review Team use the FSSC and the Chartered Insurance Institute's work in this field as a starting point, but establish its own benchmark, informed by the experience of the different advisers participating in the Pilots.

*Views on the organisations which could play a role in the hybrid model, either on behalf of the main organisation under a contractual arrangement, or as a jointly labelled accredited partner?*

The Foundation supports the Report's interim conclusion which favours a "hybrid" model of delivery, which combines a central hub delivering internet content and telephone services with a network of accredited partners delivering F2F advice. This approach will be cost effective, and will enable the service to achieve consistency of advice delivery whilst also benefiting from existing local infrastructure, expertise and trust relationships.

Selecting the most appropriate accredited partners to deliver F2F advice presents similar challenges for the Review Team as selecting intermediaries to promote or refer people to a new service. The 19 million people which form the Review's target group of those in need of generic advice are certainly not a homogenous demographic: their differences in age, cultural, ethnic and professional backgrounds will all affect their preferences regarding how and where they receive F2F advice.

As such, care needs to be taken to ensure F2F services reach as wide a spectrum of the target population as possible. Last year, the Resolution Foundation carried out a survey of 400 low to median earners and asked them where they would like to receive generic financial advice face to face. The highest proportion (51 per cent) said "at home", followed by local community centre (49 per cent), then local GP surgery (39 per cent) and shopping centre (34 per cent).<sup>12</sup> The workplace was the least popular location for face to face advice, with just 22 per cent favouring this option. Whilst people are generally happy to receive broader information at work (e.g. through FSA workplace seminars), our research showed that people felt the workplace provided little privacy for personalised consultations and they would not want to give the impression to their colleagues or employers that they had financial problems.<sup>13</sup>

If we assume that home visits are not a financially sustainable method of delivery, then alternative co-location opportunities might exist in larger GP surgeries or Post Offices, leisure centres, libraries and so on. The Community Legal Service, for example, carried out a successful pilot where they located some of their legal advisers in GP surgeries.<sup>14</sup> We believe that staff in such locations have the greatest contact with the Review Team's target group, and many also benefit from positive

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<sup>12</sup> *Closing the Advice Gap – Appendix* Resolution Foundation 2006

<sup>13</sup> *Ibid*

<sup>14</sup> *Innovation in the Community Legal Service: A review of 22 projects supported through the Partnership Initiative Budget*, Community Legal Service, 2005

trust relationships with them. Further locations might be used to target specific groups of lower earners: SureStart centres and community health centres might help reach new parents and the elderly, for example, whilst religious or ethnic group support centres may help reach those with English as a second language – a hard to reach group who may not be confident enough to use a telephone-based advice service.

*How could commercial providers benefit from delivering GFA in their premises? For example, does the delivery of GFA in a commercial setting improve the levels of motivation to take action and execute a plan?*

We support the Review Team's intentions to consider in more detail the potential role of the commercial sector in delivering F2F generic advice as an accredited partner. The prevalence of banks, building societies and brokers in high streets across the country certainly recommends this strategy as a way of achieving a noticeable nation-wide presence. There are, however, obvious risks associated with this strategy – not least the undermining of the public's confidence in a new service as impartial and separate from the sales process.

This risk may prove more significant if generic advice were delivered directly by bank/building society staff themselves – if this were the case, the service being delivered would have to be very visibly independent of the bank/building society's main commercial activities, and generic financial advisers in banks would have to be clearly instructed not recommend their own products or in any way gain commercially from the advice they provide.

A lower risk alternative to this would be the co-location of independent generic advisers in high street branches of banks and building societies. Assuming the advice service was clearly branded as separate from the bank in which it was located, then this co-location approach offers a number of benefits: in addition to the geographical prevalence of high street branches which makes this a highly visible and accessible option for delivering GFA, consumers who are in-branch are most likely to be thinking about their finances, and therefore may be more motivated to approach in-branch advisers and then act on the advice they receive. Co-location could also offer reputational benefits to financial service providers themselves, as they would be demonstrating to consumers their willingness to host independent, impartial financial advice on their premises and a commitment to improving the financial capability of their customers.

## **Chapter four**

We recognise that the governance of a new generic advice service is a crucial factor in its overall success – the take up of a new service and its perception among the public will hinge on the right body being selected to represent the GFA "brand". Appropriate governance structures are also crucial in ensuring the quality and reliability of the advice service being delivered, both centrally and, more importantly, among the numerous accredited partners that will give the service a local presence delivering F2F advice.

As such, the choices faced by the Review Team – in particular balancing the benefits of a new independent organisation with the legislative change this will require and the time this will take – are all-important and must be considered with care. Whilst a speedy set up of a new service is desirable to capture the momentum of the

government's financial capability strategy and the awareness raised by the Review's ongoing pilots, it must be borne in mind that a new national service must be governed in a sustainable way that is capable of adapting to potential new roles and responsibilities in line with the government's longer term financial capability strategy.

*Should a GFA service be delivered by a new organisation, and if so should that organisation be a public body?*

The Foundation considers a newly established public body to be the most appropriate governance structure for a new advice service. Firstly, our own research found that the public would be most likely to trust an advice-giving body which was independent of both the government and the financial service sector.<sup>15</sup> As such, a public body would probably be the most desirable organisational structure to uphold the GFA's brand as being trusted, impartial, and "on the consumer's side".

Secondly, early stages of our research involved scoping the existing financial advice landscape. During this process, we did not encounter an existing national brand or advice service which would be suitable for development into a generic financial advice service. Although we found local advice services that were certainly suitable for use as accredited partners in delivering F2F advice, most enjoyed awareness and trust at a local/community level only. Their brands (not to mention their resources and capacity) could not feasibly be exported to a national level.

In fact, the need for a new GFA service is so great precisely because no organisation currently exists which approximates its desired functions. As such, the "stretching" of an existing brand to deliver generic advice might actually require a brand "revolution". Changing connotations and associations of an existing brand and reversing embedded public perceptions would not be a straightforward process, and may take a significant amount of time. As such, delivering generic advice under a "stretched" existing brand may not be a time-saving option as suggested by the Report, and, if not successful, risks generating negative or unhelpful perceptions of a new service – for example for being for people "in trouble" or on lower incomes only.

A third point to bear in mind is that a newly established public body has the potential to grow and develop in line with wider policy priorities of financial capability and inclusion. In the Foundation's response to the Government's consultation document *Financial Capability: the Government's Long Term Approach*, in January this year, we proposed that a national body ought to be created with the responsibility for championing the issue of financial capability and providing governance and oversight of government, private and third sector activity promoting financial capability by setting targets, minimum standards, and monitoring progress and performance. We envisaged that this larger champion of financial capability would also act as a coordinator of various education and advice programmes that currently exist in this field.

The governance of a new generic advice service, as an important tool in achieving improved financial capability, could potentially come under the remit of this larger umbrella organisation. Creating a new organisational structure to discharge a national advice service may represent a helpful contribution to the creation of a larger body with a wider remit to champion and coordinate a broad range of financial capability activities.

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<sup>15</sup> See *Closing the Advice Gap*, Resolution Foundation, 2006

However, we agree with the Report's interim conclusions that establishing a new public body is not without significant challenges – not least the need for new primary legislation to ensure this new body had sufficient executive powers to discharge its role. Nonetheless, the Foundation would urge the Review Team not to dismiss this organisational structure on the grounds that the primary legislation required represents too lengthy a delay in the establishment of a new advice service. We would suggest that an interim solution be sought to enable a generic advice service to be launched with little delay, whilst work progresses on achieving the longer term goal of creating a new public body to ultimately discharge this function.

We would suggest the Review Team investigate possible interim solutions, including the creation of a “shadow” body. Another alternative to bridge the delivery gap could be the creation of a unit under the auspices of the FSA. However this option ought only to be used as temporary measure – the body delivering a new GFA service must be a high profile consumer champion. The FSA does not have the high profile brand required, and its role as a consumer champion may conflict with its statutory duties as market regulator. Finally, the FSA would not be able to raise the universal levy required to fund a new service (see below).

## **Chapter five**

We agree with the Report's interim conclusions that the exact costs of a new generic advice service are very hard to predict. The balance of advice channels required, and the volumes of consumers using each, will have a huge impact on the final costs of a service. Data from the ongoing Pilots will certainly help generate a more accurate *range* of costs. However, the Foundation would suggest the Review Team not attempt to provide any more precise figures until after delivery on a more significant (e.g. regional) scale is attempted and over a longer time period.

Instead, the Team should ensure that those costs that are incurred are spent effectively. We certainly welcome the Team's intentions, as outlined in previous chapters of the Interim Report, to explore viral and social marketing techniques, and the use of intermediaries. Whilst more costly marketing channels (i.e. TV, radio and press) will be needed, especially at first to establish brand awareness, these other methods will prove a valuable and cost-effective supplement. Similarly, exploring the ways in which technological advances might reduce delivery costs is certainly a fruitful avenue of investigation. Whilst online tools and information may address many consumers' concerns and queries, providing advice and guidance is by its nature an interactive process, requiring the exchange of information between client and adviser, and then hopefully the discussion of a jointly decided solution or course of action. As such, telephone and F2F advice will always play an important role in delivering generic financial advice, but there may be ways of replicating this interaction at less cost via the internet – pod-casts, consumer and expert forums, and virtual consultations, for example, may all prove feasible and popular among certain sections of the target group. We would suggest the Review Team consult Moneysupermarket.com in this matter. This comparison website uses a range of interactive tools on its site to enable consumers to consult financial experts.<sup>16</sup>

*Would a compulsory levy be the most appropriate way of raising the industry contribution to a GFA service; and if so, should it be a new mechanism or an existing one, such as the FSA levy?*

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<sup>16</sup> <https://www.moneysupermarket.com/community/default.aspx?Source=MSBRANDGOO1>

There has been broad support (from all sectors, including figures in the financial services industry) for a funding settlement for a new GFA service which splits contributions equally between the government and industry. Whilst consensus has more or less been achieved on this issue, it is crucial that the Review Team considers carefully how the industry's contribution might be collected. A poorly designed contribution process may have an impact not only on the overall administrative costs of a new service, but also on its reputation with the financial services industry as a whole.

In the Foundation's response to the Review's Call for Evidence, we evaluated a number of options for raising financial contributions to a new advice service from the financial services industry. We explained that when assessing these options – which included an FSA-based and universal levy, a “marketing tax”, voluntary contributions and so on – two criteria ought to be borne in mind:

- Fairness and transparency – what is the most effective way of spreading the cost across the economic base of the financial services industry, and how should this be apportioned? (i.e. according to size, marketing spend, or some other indicator of responsibility)
- Simplicity – collection of funding should not present a large administrative cost or require whole new frameworks or bodies to be created.

Of the possible options available, we felt a levy would be the most appropriate option in creating a funding stream for a new advice service that was both reliable for those operating the service, and fair for those contributing to it. However, we felt that adapting the existing FSA levy would have a number of drawbacks, and in particular that it would not secure contributions from providers of unregulated products. As the Interim Report acknowledges, unregulated products – such as popular consumer credit products – are likely to be the source of many GFA consultations, and as such it is desirable that both regulated and unregulated companies contribute to a new GFA service.

It is for this reason that we feel a new, universal levy would be the most suitable funding method. This could then be designed to cover regulated and non regulated financial service providers alike. We agree that attempting to levy hundreds of small and independent companies would be very difficult and imply significant administrative costs. Instead, we would suggest that the amount paid is dependent on the size of company (based on annual turn over), with a cut-off point so that the fee might only apply to a set number of the largest regulated and unregulated financial services companies in the market. We feel any other method of calculating a company's contribution (such as marketing spend, predicted level of contact with consumers accessing GFA, and so on) could be open to subjective interpretations and may be seen as unfair by some providers in the sector. Turn-over, roughly reflecting company size and ability to pay, is the simplest and most transparent method of calculating fees payable.

We would also strongly advise that any new levy to fund a GFA service be closely coordinated with the government's broader financial capability strategy, as well as the existing FSA levy used to fund its financial capability activities. Emerging programmes to promote financial capability may require additional funding from the financial services industry in the next few years, and these future developments will need to be taken into account as far as it possible so that the industry's expectations of who is eligible to pay, and how much, remain clear and consistent over time.

Whilst “vertical” exclusion (i.e. setting a benchmark regarding the size of the company eligible to contribute to a new advice service) is a fairly straightforward process, it will be more of a challenge for the Review Team to demarcate “horizontally” which sectors of the market should be included in paying a levy. As the Interim Report suggests, some GFA enquiries will be generated by and deal with issues regarding utilities and telecoms. However, the Foundation takes the view that these topics are likely to be discussed within the wider context of *debt management* and *budgeting*, and that neither utilities or telecoms companies sell or offer what would fall into the category of a “financial product” – unlike savings, insurance, loan, credit or mortgage providers. As such, we would suggest the contribution base cover the full range of regulated and non-regulated *financial* services providers, but exclude those areas which may be discussed during a GFA consultation as a result of their demands on a consumer’s budget (which may not only include utility and telecoms providers, but also other organisations which have subscription services).

One of the drawbacks of establishing a new contribution system, rather than using the FSA’s existing levy, is that a new organisation with executive powers will be required to administer it. As we explain above, we consider a new public body to be the most appropriate form of governance for a new generic advice service, but recognise that its establishment will take time. As an interim measure, we suggested the Review Team investigate the feasibility of a shadow body or unit based in the FSA which could deliver a generic advice service in the short term. This investigation would clearly have to consider whether a shadow body would be able to adopt executive powers to raise a levy from the industry, or whether an FSA unit could use its existing FSA levy (i.e. of regulated financial services providers only) to fund a fledgling generic advice service before both the new independent body and universal funding arrangements were put in place.

*Would it be practical for compulsory contributions to be made partly in kind, whether by provision of staff, accommodation or other resources, or as a direct provider of part of the service?*

As we explain above, using the financial services sector to help deliver a new GFA service directly could be a potentially high risk strategy as it may undermine the impartiality (real or perceived) of a new advice service. We suggested above that the Review Team seek to work constructively with the sector to agree their *financial* contribution to the service, rather than develop contributions in kind such as these.

Nevertheless, the financial services sector is a valuable source of expertise which need not go untapped when the new service is being established. In the short term, one of the most significant costs implied in delivering a new advice service will be staff recruitment and training. Whilst it might not be desirable to have financial services providers delivering GFA directly, they could make a valuable contribution by helping to train newly recruited generic advisers or act as expert consultants when training materials and scripts for advice are being developed. This could certainly act as a form of contribution in kind from the sector, at least in the short term until a system of administering financial contributions is fully established. We would suggest the Team also explore the feasibility of co-location as a contribution in kind, which, as we explain above, has fewer associated risks than direct commercial delivery, and does bring a number of benefits (such as a widespread high street presence).

## **Conclusions**

Overall, the Foundation considers the Thoresen Review Team's Interim Report an extremely important step towards the creation of a new generic financial advice service. It has furthered thinking in many challenging areas and presented valuable new analysis, particularly in the areas of identifying the target market for a new service and exploring the challenges of delivering a service within the existing regulatory boundary. However, it is clear that many issues remain unresolved, and may only be partially addressed by the piloting that is currently taking place. Further fine tuning on a larger scale and over a longer time period – for example regional stages in the run up to a national roll out – may be the only way of illuminating some of these issues.

In particular, the Foundation is concerned that the regulatory boundary within which generic advice must operate may prove a hindrance to the full and effective delivery of advice and guidance which enables consumers to act. The current boundary has proven to be a grey area, whereby giving “information with the strength of a recommendation” is deemed to be a regulated activity regarding certain products. The Foundation foresees a risk that a new service could be watered down to the provision of advice only – whereas we hope to see a service which provides clear advice and encourages people to act on the advice they receive, up to and including the recommendation of specific courses of action where they are clearly in the consumer's interest. It is only with the delivery of this latter form of advice that a new generic advice service will be able to effect change in people's financial decision-making and behaviours and improve financial capability over the longer term.

A second important unresolved issue concerns the governance of a new advice service, and related to this, its executive powers to raise a levy which covers the entire economic base of the financial services industry (i.e. not just FSA-regulated providers). The lack of an appropriate existing body which could govern an advice service necessitates the creation of a new organisation. Similarly, a new funding arrangement, which collects contributions from regulated and non regulated companies alike, also necessitates a new body with executive powers to be created. A new organisation would also be compatible with the wider policy priority of financial capability, which we believe will be served best by a new, more wide ranging, independent body to coordinate multiple strands of activity and act as a public focus for the promotion of financial capability across the government, private and third sectors.

Nevertheless, whilst the Foundation believes the creation of a new public body to govern a generic advice service is the most suitable option, we recognise that this option presents a range of further challenges – not least the resourcing of such an organisation and the delays implied by the need for primary legislation to establish an independent body with executive powers.

The creation of a new generic advice service need not be postponed until these arrangements have been put in place, however. A fledgling service, perhaps rolled out in regional tiers, and managed by a shadow body or a unit within the FSA, could represent a valuable interim solution until governance and funding arrangements have been finalised. Resolving outstanding issues through regional testing will be necessary in any case in order to answer more in-depth questions regarding take up and marketing, and the scripted content of generic advice vis-à-vis its interaction with the FSA's regulatory boundary.

These outstanding issues represent significant challenges to the final delivery of a new GFA service. Nevertheless, much has been achieved in developing the strategic and operational details of a new service in a short period of time. The research and

analysis carried out so far demonstrates the value of free access to generic financial advice, and the clear need consumers have for such a service. The review of the costs and governance of a service has also done much to prove its practical viability. As such, the Foundation views the aforementioned challenges not as insurmountable obstacles to the final success of this project, but rather areas in need of further analysis and wider regional testing to ensure the achievement of an effective and sustainable national generic financial advice service.