

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

26 April 2007

Dear Sir/ Madam

Thoresen Review of Generic Financial Advice: Call for Evidence

ILAG welcomes the opportunity in responding to the call for evidence on a subject of much topical interest. As a trade body, we have actively engaged in the debate on financial capability, including developing a dialogue with the FSA, responding to the Resolution Foundation report last year and more recently submitting views on the HM Treasury consultation paper.

ILAG is a professional representative body concerned with the future of the investment, life assurance and pensions industry. It is led by practitioners and aims to identify and develop industry good practice. The Group currently has a growing membership of around 50 practitioner companies and associate members. In addition, a number of individual members are affiliated to the Group.

As you state in the call for evidence not all of the sections and questions will be relevant to all stakeholders and as a trade organisation our submission is confined to responding on the strategic issues as set out in the appendix to this letter.

If at any time you wish to meet with ILAG representatives to discuss our submission or to develop ideas further please feel free to make contact accordingly. In the meantime we hope that the views and information provided prove useful to the review.

Yours faithfully

Doug Thow
Technical Analyst

Appendix

ILAG comments and responses to Call for Evidence strategic issue questions

A. What is happening today and to whom?

AS1. What generic financial advice services are you aware of in the UK? Are these provided by the public sector, private sector or voluntary sector?

AS2. For the services of AS1, please give some information on structure

Having read the HM Treasury CP: *'The Government's long-term approach to financial capability'* we are aware that there are a plethora of organisations across all sectors that are working on various projects to enhance financial capability. The one that we are most familiar with is the *Financial Healthcheck* developed by the FSA and BBC, an inter-active web-based facility that provides simple, generic information on a range of personal financial situations. Details about the format and structure can be accessed via the FSA website on

http://www.fsa.gov.uk/financial_capability/tools/tools.html

In addition, we believe that consumer research conducted or commissioned by industry firms often identify the significance of advice from family and friends in guiding subsequent financial actions and decisions. These informal and intimate sources of advice based on mutual trust and experience should not be overlooked particularly for people in reduced circumstances when considering whether a national centre is required.

In a similar fashion, generic advice via through the media and newspaper articles about named individuals, and their approach to financial situations, may also be used to guide consumers into taking particular actions.

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

Generic Financial Advice (GFA) is a way of helping consumers to identify and understand their financial needs and to plan their finances. By using information about their own personal circumstances it helps consumers recognise:-

- the choices and possible priorities for action which are appropriate to their needs
- how to take the next steps in addressing these priorities, and,
- how to access other relevant sources of information and advice.

Consumers should be able to select from a menu of GFA items including:-

- product-related advice
- advice on financial management
- advice at different life-stages
- crisis-related advice

However such advice falls short of recommending a particular person to follow or refrain from following a specific course of action with regard to a financial services product.

AS4. Are there examples from overseas which offer good models for a national approach to generic advice and why?

We understand that in the USA (National Endowment for Financial Education), Australia ('Understanding Money'), New Zealand ('Sorted') effective national web-based advisory services have been created for public use. They can be accessed respectively via:-

<http://www.nefe.org/>

<http://www.understandingmoney.gov.au/>

<http://www.sorted.org.nz>

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

We are aware of the following material that may be relevant:-

The National Consumer Council: *Bridging the Gap* briefing on FSA's GFA plans

Resolution Foundation: *The advice gain - The impact of generic financial advice on the financial services industry*

A Quality Assurance Model for Generic Financial Advice (January 2007)*

The Generic Financial Advice Code. "Creating consumer confidence and reducing provider risk" (Jan 2007)*

* available at www.svarfair.co.uk

AS6. Do you consider the current infrastructure could deliver the kind of generic financial advice provision envisaged by this review? Or is a new structure required?

The current regime is not conducive to generic financial advice on the grounds that product providers cannot make any money out of it per se. Moreover, when compared with financial service industry in countries such USA and Australia, providers in the UK often feel inhibited from giving generic advice – apart from their own FactFinds on potential customers – usually because their products are traditionally distributed and

sold by independent financial advisers and brokers. This division makes for commercial tension between the two parties in terms of developing customer relationships though the 'treating customer fairly' programme may help to establish a more integrated approach over time.

In the interim, one way in which providers could take a more direct role would be in attaching a link on their own websites to a national facility such as the *Financial Healthcheck*, and/or incorporating a reference in their correspondence and company literature, to enable consumers to obtain generic help more suited to their own individual needs and circumstances.

We believe that ideas and initiatives of the above nature should be more fully explored before a financial commitment is made to set up a new structure with all the start-up and overhead costs that may be involved. Firms' experience points to existing or previous customers becoming more familiar and confident in buying web-based insurance and investment products and use of internet technology is bound to continue to grow and spread.

B. What should the scope of a national approach to generic financial advice be?

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

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

We strongly believe that generic advice should be open and available to *all* although in practice it is likely to be used more by people who at the lower end of the socio-economic scale who either have pressing needs, have debt-related circumstances or may not have brought a financial product before. However no one should be debarred from using the service.

The scale and nature of generic advice should provide optional courses of action for the individual to pursue with the line being drawn at giving advice about a specific type of product or provider.

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

To capture public interest at the outset an intensive marketing campaign should be launched involving media adverts and mass mail-shots backed by suitable publicity in schools, other educational establishments, firms and places of work, citizens advice bureaux and community/ welfare centres etc.

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

The advice should be in line with National Occupational Standards (NOS) for providers of Generic Financial Advice produced by the Financial Services Skills Council available on the FSSC website:-

http://www.fssc.org.uk/cgi-bin/wms.pl/Standards_and_accreditation/278

The range of advice should follow that available through the *Financial Healthcheck* dealing with basic life insurance, health protection, loans and mortgages, simple methods of saving and planning for a 'rainy day'. Reference to more complex products or arrangements should be avoided to guard against consumer confusion and information 'overload'.

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

The NOS should apply. In particular Unit GFA5 which covers referring the consumer to further financial information or advice.

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

Again, we believe that access should be as open as possible with charities, housing/tenant associations, community and welfare groups etc being obvious referring bodies as well as employers and even financial advisers (helping to short-cut the process of customer profiling that they have to carry out and aiding greater customer understanding of the nature of the potential products available).

BS7. Where should people be referred to after receiving generic advice? Should it be possible to refer people to a commercial provider?

It is upon this question that the eventual success of the scheme depends as to whether a person in obtaining generic advice will then take specific action and how. As we have said earlier, we do not believe that it is responsibility of a generic adviser (particularly if non-regulated) to recommend a specific product or firm and that further consideration needs to be given by all concerned to arriving at an acceptable formula.

One idea that may be worth pursuing is the establishment of a national independent register of financial advisors (like the Personal Finance Society's 'find your advisor') to allow the individual to easily move from a generic to regulated advice environment if they so wish.

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

This would come within the province of the FSSC and we envisage that such advisers could come from a variety of 'walks of life' and not necessarily just those who are already versed in the business of financial services. As an example, it is conceivable that employers may wish to appoint one of their staff as a generic financial adviser in the same way as they designate persons responsible for areas such as health and safety, first aid and welfare.

BS9. What are the legal implications of giving generic financial advice?

Much will depend upon whether the adviser is regulated or non-regulated ie.if the person giving the GFA was also regulated to provide any further GFA. There is an aspect here of potential liability for the "transferred information".

If face-to-face advice is to be given, we would expect that accurate and up-to-date records should be kept and the signature of the consumer obtained to the effect that the advice was given in good faith having regard to the facts and information made available by the latter (a 'reasons why' letter).

In this context, the GFA Code (see AS5) sets out the mutual obligations of the adviser and the consumer including that:-

- the consumer will provide information needed to provide that him/her with 'Generic Financial Advice'
- the consumers will say if the Generic Financial Advice is not clear enough so that he/she can fully understand their options
- recognise that you need to action advice within a reasonable period of time.

BS10. How could the creation of a new generic financial advice service materially affect the advice providers?

If this question is meant to relate to existing financial advisers/ consultants then hopefully it will improve the efficiency of their business by weeding out initial non-serious or irrelevant inquiries and enable them to deal with subsequently better-informed customers.

The long term effect of a successful generic advice service would be to improve peoples' engagement with advice providers and lower the current barriers of entry. In turn this should increase business levels

C. Cost and funding

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

It should be totally free.

CS2. Is there any evidence that supports a commercial case for a generic financial advice service?

One private service we are aware of is 'Using GFA to improve persistency and customer retention' accessible on:-

<http://www.svarfair.co.uk/index.php?op=library&lan=EN&nid=108&tip=1>

Other than that we doubt whether there is a commercial case for setting up a fully comprehensive service that would prove cost-effective.

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

CS4. What factors should be taken into account in deciding how to split any costs of a generic advice service between the stakeholders who will benefit from the service?

A full cost-benefit analysis is vital to the whole scheme.

CS5. How can the "generic" element of existing regulated advice processes be costed and its benefits quantified, including the process of customer engagement and the "fact find"?

Independent financial advisers should be able to provide quantitative information in this context as they already give generic-type advice for customers to go elsewhere and will have data on input time / success ratios in leading customers through the various processes to transaction point.

D. How can potential users be engaged?

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

Whilst every practical means should be taken to encourage consumers there is for some people a thin dividing line between saving money and receiving benefit. Given the current scale of state provision any advice given to them to invest privately potentially puts their benefit entitlement at risk. This real conflict of interests needs to be fully addressed.

Perhaps also there should be an attempt to de-stigmatise poor money skills and to highlight the good use of debt - as a means to buy assets /start businesses – ie to change the 'saving' mindset to an asset-growing one.

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

Two relevant and successful campaigns that spring to mind are the car seat-belt 'clunk-clink' advertisements and the Dept of Health '5 a-day' healthy eating message.

DS3. What would be an attractive brand for a generic financial advice service look like?

No doubt a team of marketers and advertising practitioners could come up with some ideas based on agreed criteria.

DS4. Is there evidence on which engagement mechanism(s) is likely to work best overall and with different segments of the target population?

This is an area in which current services such as *Financial Healthcheck* can provide evidence though we would caution that delivering generic advice does not necessarily translate into action being taken by the consumer.

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

We believe that a variety of premises could be suitable and convenient locations including workplace environments and citizens' advice bureaux.

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

In the long-term, this should lead to making people more confident about money matters.

E. What should the governance arrangements look like?

ES1. What organisations should be responsible for oversight of and/or delivery of a national generic financial advice service?

We believe that the existing FSA steering group should be responsible for ensuring delivery and that a national co-ordinating forum be established with HM Treasury to oversee the operation and performance of the whole service. To oversee the whole programme there might be need for an independent over-arching body – as has been recommended elsewhere - though an elaborate and complex governance infrastructure should be avoided on grounds of costs and compatibility.

ES2. How should any generic financial advice service be made accountable?

These aspects should be worked out and reflect normal business practice.

ES3. What should the relationship be between any new delivery body (assuming one is necessary) and existing services?

As mentioned previously we have a preference for using existing structures and services rather than setting up a new delivery body.

ES4. What mechanism should be used to collect and distribute any potential financial contributions eg. from Government, industry etc?

Inevitably this raises issues of joint or partnership funding taking into account existing and potential new sources of revenue contributions. One fruitful area of new funds may be 'unclaimed assets' held in dormant accounts or old policies providing that suitable mechanisms are put in place to indemnify banks, building societies and insurance companies from subsequent claims.

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Ends.