

27 April 2007

Otto Thoresen
Thoresen Review of Generic Financial Advice
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Dear Otto,

THORESEN REVIEW OF GENERIC FINANCIAL ADVICE - Call for Evidence

The Investment Management Association (IMA)¹ supports HM Treasury's aim to improve the financial capability of savers and investors here in the UK and is pleased to submit evidence to the Thoresen Review as part of that strategy.

Our response focuses on those questions where IMA's perspective may add value to your objectives, so there are some we have not answered including all of those in the Operational Issues section, and there are some to which we have provided deliberately brief answers.

IMA members have a relatively narrow focus in that their ultimate customers are those with money to invest. This includes people saving for a pension in an occupational or money purchase scheme. In this context, IMA has contributed to the Pensions Commissions strategy on personal accounts and its members are likely to be involved in managing the assets accumulated in personal accounts.

Overall, the IMA is open-minded about whether there is a need for generic advice, but believes that, given the potential costs of a national generic advice service, it is important to establish what the need is and what the costs and benefits be of any proposed service might be. It hopes that the evidence you collect may enable you to conduct a gap analysis of the current provision of generic advice and to identify any gaps and the cause, for example, are people not receiving generic advice because it

¹ IMA is the trade body for the UK asset management industry. Its members include independent fund managers, together with the asset management arms of banks, life insurers and investment banks, and occupational pension scheme managers. While many of its members produce funds which are marketed to private investors, these funds are usually distributed through intermediaries, typically authorised financial advisers

isn't provided or because they are not aware of its existence or because they are simply not interested in it?

Strategic Issues

A. What is happening today, how and to whom?

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

You will collect information on a vast range of generic financial advice services through your call for evidence. From IMA's perspective there are several services, which it perceives as particularly important. These can be broadly categorised under two headings:

Real people talking on the telephone or face-to-face:

- Citizens Advice leads in the provision of money advice face-to-face focusing largely on debt and it is considering how to expand this service. IMA is represented on the steering group overseeing the current Moneyplan project. Money Advice Trust (MAT) also concentrates on giving debt advice especially through its National Debtline.
- The Pensions Advisory Service focuses on providing information on pensions.
- Many regulated advisers spend a significant percentage of their time giving generic advice. It is interesting to note that MAT and TPAS each focus on one aspect of personal financial planning and do not pretend to offer a holistic service. You should make this distinction in your analysis of the current supply. Regulated advisers, through the fact find, can of course cover an individual's personal finance as a whole.
- Customer service professionals in firms may appear to give generic financial advice as part of their service but, as it is general, hypothetical and not personal, it may not qualify under the HM Treasury definition. Customers may perceive it to be advice, but it will be informative and explanatory, rather than advisory, at least in the regulatory sense.

Written versions - hard copy or on-line. Numerous services, which might be included under the definition of generic advice, are provided by private sector companies, the public sector and the voluntary sector. As this information is not personalised, it could be excluded from your definition of generic financial advice. Such information can however, be used to develop training for generic advisers or be recommended to individuals by advisers.

IMA and many of its members provide educational information online. Much is product specific, but some firms do provide more general information on investment for private individuals.

Some websites are interactive. The process and the outputs are generic. To qualify, they must stop short of recommending any specific branded product. As such they can enable individuals to establish, for example, how much risk they might take in their investments and what asset mix to choose as a result. This capacity to input personal data into a calculator for find out, for example, whether you are saving enough for retirement, should be classified as generic advice.

AS2. For the services in AS1 please give some information on structure (e.g. funding, governance, scope of service, geography, legal basis of advice, scale constraints etc.)

The face-to-face and telephone services mentioned are well-known and indeed those groups will be providing their own responses. In the case of the on-line service provided by IMA members, these are likely to be an integral part of the firms' sales and marketing budget.

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

Much work has already been done to produce a definition of generic advice. The FSA's definition in its publication *Financial Capability; developing the role of generic financial advice*, is helpful, but not easily translated into plain English or a simple verbal explanation.

It is important to stress upfront that the service is designed to equip individuals to make decisions for themselves. Generic financial advice should be positioned as "hand holding"; education & training for individuals, not a panacea or end in itself.

One suggestion is to state that generic financial advice is guidance, given in written form, on-line, over the telephone or in person, that will help people to understand the need for financial planning and guide them in that process, but stop short of making any product recommendations which could be commercially valuable to provider of the generic advice.

If, as is often the case, the generic advice is not holistic, but focuses on a particular aspect of personal finance, such as debt management or pensions, then the description can be amended accordingly. In the case of Personal Accounts, generic advice could serve to help people determine whether to opt-out or not, as long as that advice is delivered by independent suppliers, who have no commercial interest in what people ultimately decide. The same could apply for any information or guidance on asset allocation that someone might need, given the same caveat - the supplier is not selling any products and is independent of any firm that does sell products. The main purpose of generic advice is to guide, not recommend.

There is considerable scope for misunderstanding in customers' minds. They may be disappointed that the generic adviser cannot help them finish the process by suggesting a particular product and provider. IMA still believes that to manage customers' expectations, the term "advice", where it is given by an individual who is not regulated, should be avoided and substituted by "information", "guidance" or "help" when promoting the service. Those delivering the service could be called personal finance trainers or tutors to emphasize the educational angle. Other possibilities are personal finance consultants, or simply personal finance experts or information providers. This clearly poses problems for Citizens Advice and Money Advice Trust, but these organisations could, in changing the name of their service, at least where it relates to money, draw public attention to the distinction with regulated advice and indirectly help promote to the generic service. For more on this subject please also refer to BS5.

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

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

IMA believes that you will get more comprehensive answers to questions AS4 and AS5 from other respondents.

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?

One premise must be that in so far as the current infrastructure involves people on the phone or face-to-face, as identified in AS1, there is an opportunity to build on it. Hence, the strategy should be to work with existing providers on how to enhance their scope and improve the quality of their service as appropriate.

If there is a need for a new, over-arching organization as referred to in Section E it should aim to ensure that consumers can easily understand where to find sources that will meet their needs. For example, they may specifically want help on debt management or pensions.

However, it is not yet clear how strong demand will be for guidance on financial planning more generally. Further research should be done here. For further comments on this, please see Section B.

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?

The service should aim to serve those most in need first, i.e. people lacking in financial capability in terms of awareness, knowledge and willingness to manage their financial affairs. This may be those on low-incomes. Clearly they are more vulnerable and so a Government target. You can target low-income groups, but you cannot exclude others. The service could also be of significant value to those who do not know where to start. Consumer research shows that, after "can't afford it", "don't know where to start" is a major reason why people do not save. Many people can afford to save, but lack confidence as to how. Some are already saving a bit, but would do more given some reassurance.

Another perspective is to view the eight million people that DWP is targeting with Personal Accounts as the target audience for this service. IMA referred to the need for generic advice in its input to the Pensions Commission suggesting that it should include some indication of the likely interaction between a personal retirement savings account and the state pensions and benefits system.

The DWP's Family Resources Survey and other research could help you segment and quantify your potential demand.

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

It would be very hard to exclude anyone from making an approach, especially, if the aim is to provide a service which does not only focus on those with debt problems. A process for referring individuals to paid-for advice should be integral to the service – Citizens Advice undoubtedly has relevant experience here.

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

Citizens Advice has first hand experience of working with the “most vulnerable”. Its data show that advice on debt management is a priority for customers using their money advice service. So in the current environment, debt management guidance seems a sensible pitch with which to start. In due course the service can be expanded to other areas of personal financial management if there is sufficient demand, such as insurance cover and savings.

Personal Accounts might also be a basis for a person to seek generic advice, as HM Treasury observes in its recent strategy paper. Ownership of a CTF may also be a trigger. In both cases people have a something to look after – the investments are theirs - and they have a direct interest in how well their assets are managed.

Those who are “vulnerable”, yet shy in asking for help, could be prompted by a range of other, mostly non-financial advisers, who may observe a person or family’s need for generic advice – see BS6 for further comment.

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

Debt management, as mentioned in BS3, must be an initial focus. Over time, the service can expand depending on the demand and funding available. Personal accounts will clearly provide a prompt for people to seek advice and at the very least online tools will need to be developed, for example, to describe the interaction between personal retirement savings and State pensions and benefits.

Help with financial planning overall is clearly a HM Treasury aim and further research should be done (a) on the demand and (b) how big a difference this more holistic service will make to individuals relative to the cost of making it available. Pilots in connection with Savings Gateway show that people are often reluctant to be educated.

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

As mentioned in the answer to AS3, IMA believes there is considerable scope for misunderstanding as to where the boundary between regulated and generic advice lies.

FSA has been cautious in its definition² and most IMA member firms' customer service staff are also wary of straying over the line. Typically, they are not "authorised" advisers, and their service is to provide product information, including explanations of how a certain asset allocation is designed to meet certain investment objectives or how a given fund might fit into a hypothetical portfolio. They are carefully trained to ensure they understand what regulated advice entails.

However, if all the stakeholders in the advice provision world, both regulated and unregulated, can be engaged, there may be scope to draw the line more precisely, namely, as mentioned in AS3, the term *generic* applies as long as the provider of that advice is not recommending products or services from which he or she or it is likely to make a financial gain.

From a regulatory perspective, the boundary might be drawn at the point at which a regulated adviser would be required to 'know your customer'. In other words, the generic adviser can work on any general principles up to this point but once they reach the trigger points that would prompt an IFA to need a KYC discussion, they would be required to 'refer' the individual further along the chain to a list of potential service providers.

However, where the generic adviser is using an on-line questionnaire as a template for that KYC discussion and is importantly, completely independent of any product sale, then it could still qualify as generic advice. Such questionnaires range from simple ones, such as a pensions calculator designed to assess what your pensions savings will generate in retirement to those that help you assess how much risk can you take and which are designed to present a series of model outcomes depending on your answers.

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

The answer is those, who already work in communities and firms, and who are known, even trusted, by consumers. For example, in the FSA's New Parents strategy, the case is being made for links with healthcare professionals, with Children's Centres and Extended Schools. For those in employment, links are already being established with HR professionals. With some training, non-financial advisers can prompt and remind individuals to plan their finances and point to sources of information and specialist help. In the case of the self-employed, the link could be made with tax advisers.

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

Financial planning is a continuous process. A one-off, once-only, one-stop-shop solution is not realistic. It needs regular nourishment and if a person does not have the time or inclination to do this on their own, they should consider paying for an adviser/consultant/trainer to keep them financially fit on an ongoing basis. Commercial providers abound, but how do people choose one, or some, that they can trust? The generic advice service clearly cannot recommend any one

² Ref: FSA's report Financial Capability: developing the role of generic financial advice dated August 2005

product/service provider, not even NS&I. It could however, point to lists of providers and independent best buy tables, as a means to give people the tools to buy a product or service which meets their needs on their own account.

It should be an aim of any generic adviser to highlight the existence of a fully-authorized service as appropriate, and to help for his/her customer understand what this entails. Consumers can then, at least, assess the value of it. This will emphasise the distinction between generic advice and regulated advice and the fact that generic advice does not in itself deliver an end result, whereas, regulated advisers can recommend specific products and are paid to take responsibility for the management their clients' personal finances.

It is conceivable that the "free" generic advice service would generate lots of repeat business. In this case, the aim should be to encourage those people, who can afford it, to pay a fee or a subscription for that ongoing service.

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

Qualifications and training **and** ongoing assessment are important. The standards developed by the Financial Services Skills Council provide a basis for both qualifications, training and ongoing assessment. IMA believes that a consistent, good quality service – based on appropriate knowledge and honed skills, including a sensitivity to clients' needs, will ultimately be the best advertisement for the service as a whole.

Not every generic adviser will need identical training. Specialist knowledge will be necessary in some cases for example on debt, benefits, or on pensions, including personal accounts. Some will be trained to work exclusively over the telephone, perhaps with the aid of on-line tools, others can be trained to conduct face-to-face meetings.

Advisers could come from a range of sources and people from a variety of backgrounds could be trained. Clearly, those used to providing help and guidance to people already are likely to have the right aptitude. There may also be a role here for good quality people who have retired from full-time employment in the financial services sector.

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

Others will have more specific views on these.

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

Assuming the advice providers in question are regulated advisers, there are three possible effects, but these should be subject to more research:

1. The generic service could encourage customers to use and pay for regulated advice by getting them to a point where they can see the benefits of being in control of their finances, and may even be able to consider setting aside a regular amount to save in a pension or simple savings plan. This assumes that generic advice could

help people with debt management, for example, and provide guidance at the more basic, ground level of financial activity, such household budget, insurance cover and credit card use. Such customers may then see the merits of paying an adviser on a regular basis to help them choose products and to help them more generally to manage their finances effectively. This may increase the quality and quantity of regulated advisers' business.

2. The generic advice service might be perceived as a free, quite adequate means to solve the problem of financial planning over the long term equipping individuals to make their own decisions and so take future business away from the regulated service.

3. Generic advice could have very little impact on regulated advisers who would continue to serve the mass affluent market, while generic advice serves low to moderate income groups.

Referrals to commercial providers of advice if appropriate, as mentioned in the answer to BS7, should be the norm.

C. Costs and Funding

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

Given the target audience, the aim should be for generic advice to be free at the point of use. However, it would be wise to find a way of helping consumers appreciate the value of advice as a stand-alone service - to recognize the benefits of professional help. Research has shown that even people who can clearly see the benefits of advice are not prepared to pay a fee for it, as they might for legal advice. The latest evidence is the AXA Avenue report.

The question is can AXA, and others in the sector, persuade consumers that there is value in the advice as a stand-alone service. In this context, Government should develop its generic advice service in such a way as to ensure that consumers understand that the service costs money. Perhaps, a voucher system could be considered, at least for the face-to face meetings, to encourage first time users and to limit use to those who cannot afford the service long term.

CS2. Is there any evidence that supports a commercial case for a generic financial advice service (including required changes to the existing model to improve the situation)?

Fee-based holistic financial planners give a generic advice service – but it is accessed by the few who prepared to pay. The commercial case is weak to non-existent as long as people are not prepared to pay a fee.

The business case in the savings and investment market is dominated by the high risks and the costs relative to potential profits. The experience of Stakeholder and Basic Advice demonstrates this. The Thoresen Review must explore the options here through further consultation with financial services companies, particularly those with direct customer contact.

There may be scope for business support at the community/local level, but the question is whether it will be of sufficient scale to make a difference. Partnerships could be formed with generic advisers and local financial companies because in these circumstances firms are interested in social as well as purely economic paybacks. The Citizens Advice Moneyplan project is an example of this.

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

IMA members do not expect any immediate and quantifiable benefits to emanate from generic advice, but longer term, if generic advice helps people reduce debt and increase savings, this will be good news for asset managers. Obviously, the more that the generic advice is linked to distinct objectives e.g. debt management, the easier the benefits will be to quantify e.g. improvements in individual's debt management.

The hurdle is the culture of "borrow and spend" that exists in the UK today. Any improvement may ultimately be due to a combination of factors, including generic advice, and it may be hard to separate out the influence of generic advice as a variable. For example, a national generic advice service timed to coincide with the advent of Personal Accounts may increase medium to long term savings, but how much will that be due to the publicity and the opt-out decision as opposed to the supply of generic advice?

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?

Sharing costs is a good idea in principle, but in practice the challenge is to understand the benefits pertaining to each stakeholder, whether it is in the public or private sector, and to weight them proportionately.

IMA members are much lower down the list of possible stakeholders, than banks who have so much more direct consumer contact. Many IMA members might say the benefits of a more financially capable population are negligible for them as businesses and that they cannot be quantified. As an association, IMA does have a long term view about the benefits of improved financial capability amongst those with money to invest but relative to the effects of tax or regulatory improvements, they are indeed negligible. Therefore, IMA will continue to offer input on strategy and on content relating to investment matters, but not extra funding.

To the extent that Government is likely to benefit in social and budgetary terms from a more financially capable population, particularly in its target segment, then IMA's view is that it should take the lead in financing the delivery of the service.

Furthermore, Government is in a unique position to consider what is currently available and to build some coherence into that supply, as well as to develop triggers to ensure the target audience is aware of it.

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”?

Practitioner advisers will be better qualified to answer this.

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?

This is the hardest question in the call for evidence. There is clearly no single solution. Considerable research has been done on how to change behaviour, for example, FSA’s paper *Advice and the best way of delivering it*, which was published in August 05, also tries to answer this question. Given there is not an easy answer, the strategy should be to adopt various methods – prompts and reminders about costs of not doing so, school education, workplace seminars, triggers at times of life-change, such as new job, expecting a baby or moving house. Ideally, there would be some “carrots” in the messages, rather than the more stick-type messages that commonly appear about the risks of too much debt or not saving enough. Ownership of assets – personal accounts or CTFs - may stimulate this more positive approach.

The existence of a national generic financial advice service itself is not enough to encourage this behaviour. However, if it has a good reputation and successful networks are developed which serve to draw consumers attention to it and encourage them to use it, then it could be seen as a positive influence.

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

Campaigns, such as those for healthy eating, no smoking or lower driving speeds, come to mind here, but they differ from financial planning because the outcomes are generally so much more visible and, in the case of driving, there are legal implications. It is also notable that healthy eating campaigns and others can be irritating and/or are ignored.

Employer incentives should also be taken into account, but there is need for caution here as many, particularly small, employers will want nothing to do with the process beyond paying contributions. Anyway, the auto-enrolment proposals for personal accounts, coupled with the associated employer contribution, is likely to increase the propensity to make pension contributions.

You might also consider the “annual deadline” incentive, not that you could impose a fine as the Inland Revenue can for tax returns, but look at ISA allowance which expires on a certain date. How a deadline for a person’s opt-out decision on personal accounts might generate a demand for generic advice merits some further thought, not forgetting a scenario where the supply falls short of demand and the reputational risk that would entail.

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

The impression is that the brand should promote a sense of well-being arising from being financially in control as a benefit. Of course generic advice is only ever going to be guidance. Generic advisers cannot do it all for you, while commercial providers can, if their customers are prepared to pay for such a service.

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

Again, the review should recommend various approaches so as to assess which combination(s) is (are) most cost-effective. There must be considerable scope to dovetail, IT and web-based provision with telephone help-lines, and to reserve face-to-face meetings for special cases.

The strategy should be to create an infrastructure of information and support at different levels for a given target audience. This would amount to a tiered service using various communication methods – leaflets, websites, telephone helpline, with the possibility of face to face meetings for some and a robust signposting process in operation throughout.

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

Assuming that the change in behaviour you are looking for is sustainable, the provision of generic financial advice may be a cause, but with the caveats mentioned in DS1. Behavioural change is more likely to happen in connection with a particular issue, for example debt or pensions provision. Behavioural change has been encouraged if there is some financial incentive attached, such as is the case in the Savings Gateway or with ISAs. These examples could provide a benchmark to help you evaluate the effect of generic advice provision in itself.

E. What should governance arrangements look like?

ES1. What organisation(s) should be responsible for oversight of and/or delivery of a national generic financial advice service (e.g. national vs. regional oversight; existing vs. new body)?

IMA believes that an independent Board (of trustees) should be responsible for oversight to agreed standards and targets, which will have been developed by a lean, central executive team. Delivery should be managed locally. Such a model is already used by many not-for-profit organizations. Certain Government agencies clearly have a role, and so does the FSA, given its financial capability remit, and they should be represented at least as observers at the Board level.

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

This is clearly an important question, but Citizens Advice and other existing practitioners will have more to contribute on this issue. Performance relative to agreed targets, including value for money should be monitored by the independent board.

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

There should be a clear distinction made between any new delivery body, should one be needed, and existing services. One of the criteria for oversight should be to ensure that this is the case and that relationships between the two are productive according to pre-determined criteria and targets.

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

This follows from the answer to ES1. The executive, central co-ordinating body should develop and manage the collection and distribution of funds.

Operational issues:

IMA provides information online to help consumers invest wisely and aims to distribute this through those with greater distribution power. IMA can and will help those who aim to help consumers understand investment, but is not able to supply generic advice on its own account.

Various IMA members may be able to contribute on this. Some firms have telephone helplines and online services for private customers, but IMA is not party to the detail of how these customer service operation are managed and cannot pass on commercially sensitive information. Typically, the IMA member is usually the asset manager behind the scenes, while the customer service and generic advice is delivered as part of a company's overall financial service. IMA understands that you have already contacted individual IMA member firms, but would be pleased to help you identify those with the greatest private investor contact, if you wish.

This concludes IMA's written response to call for evidence. If there are any points you would like to discuss in further detail, please contact Victoria Nye at IMA on vnye@investmentuk.org or 0207 831 0898.

Yours sincerely,



Victoria Nye
Director, Training & Education