



Thoresen Review of Generic Financial Advice: Call for Evidence

Aon Consulting Submission – by Paul Macro

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Aon Consulting believes that the provision of ‘generic’ advice is a vital addition to the financial services landscape, and in particular to the pensions arena. However, the method of delivery of such generic advice will have a vital impact on its success.

Individuals will have to have a high degree of trust in the organization / body that delivers the advice and this aspect is as vital to overall success as any other aspect of the provision.

Aon Consulting believe that this is best provided through the workplace. In fact this is supported by survey evidence that shows that by a wide margin, employees place more trust in their employer for the provision of pensions information than any other organization (and in particular the government).

For those companies that already sponsor a DC pension arrangement, it actually makes sense that they provide some assistance to employees in these areas, so that the employees can appreciate the provision of the facility, and level of the spend on pension contributions.

In addition, the provision of guidance is often seen as a way of minimising future risks of employees complaining/litigating against the employer due to e.g. unexpected falls in investment values, and ultimately low levels of retirement benefits – caused by insufficiently high levels of contributions being paid or inappropriate investment decisions.

Any future generic advice approach must mesh together with existing arrangements in order to avoid further damaging existing discretionary provisions.

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?

Pension consultants provide significant amounts of general guidance and providers to clients who sponsor defined contribution pension arrangements, almost exclusively through workplace facilities.

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.)

These are funded by payments directly from the sponsoring employer or by way of commissions from members’ funds.



However, it is rare for employers to consider the level of complexity that any wider ‘generic’ advice will need to cover, in particular whether saving in a pension actually makes sense for the individual (vs. paying off debt, or the net effects of the three main means tested benefits), and in particular any interaction with State Benefits (due to their complexity and propensity to change).

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

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 financial advice provision?

Aon Consulting conducted their last Pensions @Work survey in August 2004 and collated responses from 1,500 individuals from across the UK. Each respondent was employed in an organisation with 20 or more employees.

The survey evidenced that almost half of UK employees (47.3%) believe that their employers were best placed to provide them with information on pension provision.

The next most trusted source of information on pension provision was IFAs, with 12.7% ranking them as the first port of call for information on financing retirement.

The Government joined banks and the media, each with less than 6% believing them to be the most trusted source of financial information.

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?

With any advice it is critical that the recipient trusts the provider / supplier of the advice. As already noted, there is a significant infrastructure already in place in relation to work based pensions and this should be built upon.

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?

Generic advice should be available to all, but one of the first filters should be ‘are you eligible to join a pension scheme sponsored by your employer that is at least as generous as Personal Accounts?’ Any attempt at saying that this is not suitable for a particular audience will immediately raise doubts about its suitability to others (and this is most likely to occur in the groups which could really benefit from the generic advice).

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



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

Generic advice should be delivered through employers to build upon the existing provision of pension arrangements, or reinforce the introduction of Personal Accounts.

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

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?

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

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?

IFAs are best placed to follow up on this with referrals though eg IFA Promotions or similar. Of course the IFA will need to be remunerated, but it would be hoped that the individual would be able to appreciate this having worked through the Generic advice process.

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

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

This will need to be completely clear as to what is and is not allowed, and who can and cannot deliver it. One of the past failings has though been dramatic reaction to previously lax criteria etc leading an overly regulated position. This needs to be avoided by getting the position right first time!

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

Generic advice must be structured in such a way as to complement existing services. In particular it should fully service those areas that are almost completely uncovered by the current arrangements, but allow those that are covered to be taken further down the full advice route as necessary.

C. Cost and funding

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

If it is not free at the point of delivery, then the vast majority of users who would most benefit from it are unlikely to take it up. This is a critical point.



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)?

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?

Care needs to be taken that the generic advice is not seen to be ‘sponsored’ in anyway by providers etc – this will undermine confidence – though payment of some form of levy by the providers could be workable.

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”?

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?

Face to face, work based activity is likely to be the most effective.

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

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

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.)?

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

Work based is likely to be most effective. In particular grouping people together who are in similar situations is also likely to be more successful. Grouping by employer is the obvious route, but this could be done in a different way, e.g. something targeted at all workers from a local market, construction site etc

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

E. What should the 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)?



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

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

They must work in tandem with each other – it makes no sense for the new arrangements to overwhelm the existing ones, when the latter can provide significantly greater expertise for the market that requires it.

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

OPERATIONAL ISSUES

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

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

Examples of guidance: Investment advice

Prior to the rise of the default investment fund Aon Consulting would consider the likely population of the pension arrangement, and suggest a likely appropriate fund for members to invest in. This approach would act as a quasi-default fund (“this fund is likely to be appropriate for many members etc”). This approach was used to avoid employees looking at the potential bewildering range of investment options and deciding that they were ill equipped to chose from the range and deciding to spread their investments across all of the available options, put it in something ‘safe’ like cash or worse not to join the arrangement at all. With the increasing popularity of default funds, we adapted this process to ensure that we gave the default fund the same level of attention as the previously ‘guided’ fund.

However, we have further extended this idea due to the consequences of default funds, in particular the widely accepted position that at least 80% of scheme members (and in many cases more than 90%) opt for the default, believing that it has been chosen specifically for them (a position which simply cannot be the case for such a large number of scheme members. The risk is most ordinary plan members believe that “its all being done for them” and eg the Trustees are constantly monitoring the fund, considering whether its remains appropriate and changing it as required. Which can never be the case on an individual by individual basis.

We therefore looked to address this, not by trying to provide even more investment-related ‘educational’ materials, but by coming at it from a different angle. Traditionally providers/trustees have tried to categorise the investment funds that they offer to members by risk e.g. high risk, medium risk etc. However, members cannot put this into any sort of context and thus cannot select from them. Our approach is to start from the viewpoint of the member, not the investment manager.



We do this by getting the member to consider their own “attitude to risk” by providing a relatively simple questionnaire which, whilst financially focused, is not pensions specific.

From this we can then provide the members with a list of relevant investment funds to choose from. The list being selected from the full list of options based on the members attitude to risk, and the ‘risk’ of each fund (based not just on the traditional volatility measure).

An alternative is to then go on and suggest ‘default’ funds for each of these ‘attitudes’ to risk. For example a scheme might have 5 ‘default’ funds (corresponding to 5 attitudes to risk) with the aim being that they would better reflect the individual groups of members that are likely to exist in the scheme.

All of this e.g. the type and number of risk questions, the number of risk bands, and most obviously the ‘default’ funds suggested can be refined/adapted depending on each plan’s workforce.

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

All guidance is provided through written materials backed-up by opportunities to hear/see/discuss this via face-to-face presentations and online materials.

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

AO4. How is your service funded?

Our services are funded by fees from the sponsoring employer or commission from the members fund.

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

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

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

BO2. How many people use your service per annum? What sorts of questions do they ask?

BO3. Do you know how many people you turn away? If so, is this a capacity issue or have they come to the wrong place?

BO4. If you operate some form of “triage” or “sifting” of calls, what criteria do you use?

BO5. What referral policy do you operate and how (e.g. boundaries with other organisations, relationship with others, potential issues to manage etc.)?

BO6. What management information do you capture?

BO7. How do you monitor quality and consistency of advice given (e.g. quality control, customer feedback, complaints handling etc.)?



BO8. How do you deal with questions of liability for inappropriate advice (e.g. indemnity insurance)?

BO9. What level and type of training do you offer for your staff (e.g. costs, duration, suppliers, accreditation, etc.)?

BO10. What are the payment arrangements for your advisers (e.g. payment levels, sponsorship, pro bono etc.)?

BO11. Who are your advisers (background, length of service etc.)?

BO12. How do you ensure that you work effectively with other relevant organisations?

C. Cost and funding

CO1. What is your operational model?

CO2. What is the cost structure of your service (e.g. set-up vs. ongoing; capital vs. operational)?

CO3. How long did it take to set up the service from blueprint to launch date? Did you pilot it first? If so, please provide details.

CO4. What are the components of your model and how do they relate to each other (e.g. telephone, face-to-face and online)?

CO5. If you operate an online service, how many people use your site and do they have to pay to use it?

CO6. Please provide information on the key statistics about your service (e.g. duration of session, average cost per session, approach to booking etc.).

CO7. How are you funded and what do you have to do to qualify (e.g. grant-in-aid, customer payments, commercial capital etc)? How much do customers pay?

CO8. Are you able to quantify the social / public policy benefits of your service?

CO9. If your service is required to show a return on capital, what are the Internal Rate of Return (IRR) and payback periods?

CO10. How do you measure the effectiveness of your service?

D. How can potential users be engaged?

DO1. What market research did you do before setting up your service?

DO2. What approach to advertising have you taken at the various stages of the development of your service (including an indication of level)?

DO3. How has your service evolved over time?



DO4. How did customer usage build up over time?

DO5. Do you have information about what your customers do as a result of your advice?