

Thoresen Review of Generic Financial Advice: Call for Evidence

Response by Prudential plc

General comments on the proposal for a national generic advice service

We have responded to questions where appropriate and felt that it would be helpful to set out up-front some of the main issues the Review team face, rather than attempt to fit all the points to individual questions. We look forward to remaining engaged with the Review team as the work progresses.

The Call for Evidence reflects the Review's Terms of Reference to:

determine a range of models for achieving greater access to generic financial advice on a national scale, taking account of future developments in financial services markets and, in particular, personal accounts.

The Terms of Reference pre-suppose a convincing case exists for a new generic advice service. We are open-minded on whether there is such a case, but believe there needs to be rigorous analysis to determine if there are gaps or deficiencies in existing and proposed provision, accompanied by a thorough investigation of the costs and benefits of a new service should one be necessary. The Review, and any subsequent Government policy decisions and service delivery, would benefit greatly from a robust evidence base and gap and cost-benefit analyses at an early stage.

Before considering whether there is a need for a national generic advice service, it is worth standing back and attempting to define what problems the Review is trying to address. As we understand it the main issues are:

- from a public policy perspective the main concern is preventing people from falling back on the state as a consequence of under-saving for retirement and /or accumulating too much debt;
- there is also the possibility that the generic advice service could offer advice on benefits, either in addition to, or instead of, existing providers of advice such as the Benefits Agency.
- secondary problems to address are the shortage of "rainy day savings", and inadequate use of protection products to cover loss of income due to death, unemployment or ill health.

The Review team should carefully consider the scope of their inquiry. How are issues with a core public policy interest to be defined, and should the Review go beyond these issues to cover improving financial outcomes for people generally, such as offering advice to an individual with a savings account yielding 4% interest when he or she could transfer to an account yielding 5%? If so, the task for generic advice is potentially huge which, ultimately, could extend to offering advice on almost every aspect of consumers' financial behaviour.

Thought needs to be given therefore to prioritising the problems to be addressed. Given that resources will be limited, it would be helpful if the Review team could rank the problems they are attempting to solve through generic advice. We suggest that, given the clear public policy interest, under-saving for retirement and accumulating too much debt are the top priorities.

The Review team should look at both these and other priorities – such as protection and "rainy day savings" - on a gap and cost/benefit analysis basis. The team might decide, for example, that advising on switching savings accounts is not something that can be justified given the limited funds available to provide a service. Our initial thoughts on what we see as the top priorities are set out below.

Under-saving for retirement

Under-saving for retirement is a consequence both of consumers mis-understanding the cost of retirement provision, and the development of a high consumption culture.

The Government's flagship policy to address this is Personal Accounts which, the Government estimates, will result in 6-10 million Personal Account holders adding £4bn-5bn of new savings per annum. That Personal Accounts are reliant on a combination of auto-enrolment, consumer inertia, and an immediate investment return of 100% on core employee contributions (by virtue of the employer contribution and tax relief) to ensure a reasonable level of take-up and contributions is a lesson in how great the challenge is for anyone wishing to persuade UK consumers to save more and borrow and consume less. Personal Accounts will give rise to the need for a service to advise on whether individuals should opt-out or not, and, if they remain members, what investment choices they should make (note that neither of these decisions are covered by the existing definition of generic advice, which does not encompass recommendations relating to financial products).

The key messages to Personal Account holders, on both opting out and investment choices, need to be agreed by Government and regulators (including the FSA) and be equally applicable to workplace schemes that exempt their employer from having to offer personal accounts. Employers should not have to develop these messages themselves.

Any telephone advice service will require agreed scripts for the vast majority of circumstances people will find themselves in. It will need to embrace debt including student debt, housing benefits, working tax credits, future pension credits, etc.

It is fair that the Personal Accounts advice service should be funded by Personal Account holders through their product charges. If the service is also used by those who are auto-enrolled into workplace pension schemes outside Personal Accounts, then there might be a case for co-funding from employers. But, given many employers are likely to invest in their own communications leading up to auto-enrolment, their contribution to the Personal Accounts service should form a relatively small part of the overall funding requirement. Finally, Personal Accounts advice should not be funded by groups that are unlikely to use the service as this in effect would be a subsidy, would be unfair on competing commercial products, and may fall foul of competition law.

Personal Accounts aside, at present a number of Government departments and regulators duplicate sources of general information about pensions. We would like to see the existing sources of pensions information reviewed with a view to developing a single multi-branded site.

Accumulating too much debt

The recent rapid growth in household debt has been driven by high rates of both secured borrowing through mortgages, and unsecured borrowing, through loans, overdrafts, credit cards and so on. By definition, secured debt can normally be cleared by selling the secured asset (normally a house); by contrast, individuals may not have sufficient savings with which to clear unsecured debt, and consequently this is where the public policy concern arises relating to individuals "falling back on the state".

As mentioned earlier, the purpose of generic advice inevitably arises here. For example, in the UK the average level of unsecured debt held by households increases as household income increases, but few people on high incomes perceive their debt to be a problem and few are likely to fall back on the state because of it. Does the Review team envisage that a national generic advice service would allocate resources to advising these people because, for example, they weren't borrowing at the lowest rate possible or because they were saving as well as borrowing? Or alternatively would the service be focussed on those for whom debt is a genuine problem and those who are at higher risk of debt becoming a problem (both being overwhelmingly found in low income groups)?¹ It is our recommendation that the focus of generic advice should be on the more economically vulnerable groups.

There are already a large number organisations providing debt advice in different forms including Citizens Advice, the National DebtLine, Money Advice Trust, the FSA, financial

¹ See for example the Bank of England Quarterly Bulletin Winter 2003, *The distribution of unsecured debt in the United Kingdom: survey evidence*, and *The distribution of assets, income and liabilities across UK households: results from the 2005 NMG Research survey*, Bank of England Quarterly Bulletin Spring 2006.

services companies, and the personal finance print and online media (indeed many of these organisations provide generic financial advice). The Review should map out how well these organisations are meeting the needs of those with debt problems (however defined) and where any gaps or deficiencies might lie before determining that another body might replicate some of their work.

Finally, generic advice cannot exist in a vacuum and should therefore give some consideration to how generic advice could operate in a pervasive borrow and spend culture. In particular, consumers are encouraged by credit card providers to borrow - often with little regard for existing financial commitments. Is this contrary “education” of consumers desirable?

Funding a generic advice service

The preceding comments are intended to show the importance of clearly defining the need and consequently what the objectives of the generic advice service should be. Assuming a convincing case *could* be made for a new generic advice service, the question of who should fund it arises (aside from the element of Personal Account funding discussed above). The principle that those who benefit should pay is widely recognised. The main beneficiaries of a national generic advice service will be:

- those receiving advice, through more effective management of their finances;
- the state and therefore taxpayers, through lower benefit expenditure.

With Personal Accounts it should be possible to charge users of the advice service through product charges. Where products do not permit this, other ways of charging users might have to be looked at. Fees could unacceptably reduce take-up, and it might be that the closest proxy to users of service ends up being taxpayers generally. Aside from this, there is a standalone case for taxpayer co-funding by virtue of the reduced means-tested benefit expenditure that should result from people managing their finances more effectively.

We believe the most likely focus for the service beyond Personal Accounts is likely to be debt management among low to moderate income groups, benefit advice, and possibly advice on protection and some cash savings. This is not to say that those on higher incomes could not improve their financial decisions, but rather a recognition that resources will inevitably be limited and that there is pressure from the Government for generic advice to support their financial inclusion agenda.

If encouraging better debt management is a core activity of a generic advice service then there is a strong argument that banks should make a significant contribution to the cost of the service. Although banks may not be beneficiaries of the resulting change in financial behaviour, they have encouraged and profited from the accumulation of debt and arguably bear some consequent responsibility for providing a service to help manage that debt.

Consumers spending less of their income servicing debt will be able to either increase consumption, increase borrowing (i.e. more debt at lower interest rates), increase saving or some combination of the three. There are good reasons to believe that increased saving – at least in medium to long term investment products - is by far the *least* likely of these outcomes because:

- we live in a culture of high consumption in part financed by borrowing and consequently low levels of saving (excluding property). Although a generic advice service may attempt to effect a cultural change, the Review team should not underestimate how hard this will be. The culture of mass consumption and borrowing has developed over several decades and, as mentioned earlier, the Review team should bear in mind that Personal Accounts, because they rely on inertia rather than people consciously making a decision to save, are essentially working with the grain of the consumption culture rather than attempting to change it. If such a cultural change towards medium and long-term saving *could* be achieved then there would be a stronger argument that providers of those products should fund a portion of a new generic advice service;

- with the introduction of Personal Accounts, long-term saving among the target group will be dramatically increased, consequently reducing the need to make non-Personal Account savings and, for those in lower economic groups the ability to make additional savings;
- for younger members of the target group, saving for a deposit on a property is a major financial goal, and this is likely to be done through savings accounts rather than medium and long-term savings products;
- before saving in investment products, it is sensible to build up precautionary cash savings where capital is not at risk. Many of the target group, in so far as they do increase savings, would be best advised to do so in this way first through a cash ISA.

The experience of stakeholder provides further evidence of how low the demand for investment products is among the target group. In summary, it appears likely that providers of investment savings products can expect to see little or no impact from a generic advice service and to that extent should not be expected to fund it.

Regarding protection, we believe that there is an unmet need for protection among many consumers. To a large extent this will be commoditised term assurance to protect a family in the event of untimely death. Such products are promoted extensively and the reasons for their (arguably) inadequate take-up are unclear, although low levels of financial capability would appear to be a cause.² It would be useful to address this problem; although in so far as there might be a commercial benefit to providers it will probably be very limited given that commoditised protection is a low margin product.

Finally, it is important for the Review team to note that, as with all other markets, any charging of firms to fund the new service will result in providers looking to recover these costs through the prices they offer, and may also have an impact on existing financial capability programmes.

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?

There are currently a wide range of sources of generic advice. In fact, generic advice is probably more accessible now than ever before. In addition to the national programme run by the FSA, there are a range of third sector organisations (often co-funded by the public and private sector) providing generic advice, and extensive generic advice available in the print and online media. Prudential's own generic advice related activities have included the following:

- **Plan from the Pru:** in 2002 we launched the Plan from the Pru, a comprehensive and impartial guide to financial planning. The Plan from the Pru was designed specifically to be impartial and, if appropriate, included recommendations that consumers considered product types *not* available from Prudential.

Through Plan from the Pru we have developed a series of booklets and free pocket planners on a variety of topics such as 'Budgeting and basics' and 'Take a peek at your tax bill'. These booklets are free to customers and non-customers alike. In 2005 we issued in excess of 32,000 copies and had over 4,000 hits on the 'Plan from the Pru' website. Eighteen booklets can be obtained by phone, post, or internet and have been widely advertised on TV, radio and in the press.

Plan from the Pru was successful in some respects, but consumer demand was not as strong as originally hoped. We think this in part reflects the fact that many consumers believe they have particular problems to address (e.g. I need to do something for my

² The March 2006 FSA report Financial Capability in the UK: Establishing a Baseline found that 70% of people have made no personal provision to cover an unexpected drop in income.

retirement), rather than a more general sense of “needing to do something”.

In recognition of the need many consumers have to plan for retirement, we are currently looking to increase our provision of generic advice focussed on retirement, through seminars, literature, and online tools.

- Pru has a long tradition of involvement in what is now called financial capability, going back at least to the days of “The Man from the Pru”. More recently, through our Corporate Responsibility programme, we have been championing financial capability since 2001, with the aim of helping people become more informed about their financial needs, building the long-term capacity of community organisations to provide financial education to adults and children. We work with partners such as Citizens Advice, NIACE, pfe and the Specialist Schools and Academies Trust, all of whom share our vision of improving financial capability and who are well positioned to help provide it.

Prudential’s financial commitment to the programme is almost £1 million per annum, of which £750,000 is within the United Kingdom. This figure does not include the proportion of Prudential’s contribution to the FSA levy that supports Financial Capability. The main elements of the programme are:

- **Citizens Advice:** Prudential has been the key partner supporting Citizens Advice ‘Financial Skills for Life’ programme since 2002. This supports personal financial education work by over 80 bureaux across England and Wales. Nine bureaux were funded as pilot projects to test different methods of financial education, by working with adults in the community. Each has worked with a variety of target groups, with a focus on ‘hard to reach’ individuals, in conjunction with local partners. Four topics were common to all the pilots: budgeting, saving, credit and borrowing, and managing debt. These provided the ‘core’ of financial education work, which sat well alongside money advice, and provided a complementary service.

Prudential supports Citizens Advice’s vision that by 2010 all of its bureaux should be able to offer a financial education service in their local communities. The Financial Skills for Life programme is central to that ambition, and to achieving a step-change in financial understanding amongst those groups that need to make the most of their money.

We were pleased to note that since completion and independent evaluation of the original pilot work on the Financial Skills for Life programme, the Bracknell District Citizens Advice Bureau, one of the original bureaux, was awarded £162,000 of additional funding from the Big Lottery Fund in 2007 to continue with its Money Talks programme.

- **National Institute for Adult and Continuing Education (NIACE):** since 2003, we have collaborated on a variety of initiatives with NIACE, including the delivery of an on-line generic financial learning resource for adults called ‘MoneyMattersToMe’. We also fund the post of a Research Fellow in Financial Education at NIACE.

The NIACE website is also being used as an integral part of the resources for a new course of personal financial planning for adults. The programme is a collaboration between NIACE and the IFS School of Finance and is being piloted in a number of further education colleges during 2007.

- **Financial Services Authority:** as part of the general levy, we currently contribute a significant amount to the FSA’s financial capability strategy (of which generic advice is the largest component). This will rise significantly under the FSA’s expanded programme from the financial year 2007-8 onwards. In addition we have a full-time secondee working on the FSA’s workplace generic advice programme, and our Chairman, Sir David Clementi, sits on the Financial Capability Steering Group.

The provision of such generic advice is, however, fragmented and, in line with earlier comments, we firmly believe that there is need for a survey of what is being provided, both in order to determine if there are gaps and in order to provide a holistic approach that encompasses all such initiatives.

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.)

See comments above in relevant sections of AS1.

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

The FSA definition is adequate for a service that does not involve any specific product recommendation, and is consistent with current generic advice services, including our own generic material.

However given the level of financial awareness and engagement of the target market, we believe the introduction of Personal Accounts will give rise to the need for a service that gives clear recommendations on whether to opt-out or remain in the scheme, and on appropriate investment choices. Similarly, if the generic advice service is to advise on existing lending products then the current definition should change.

With respect to Personal Accounts we believe the various relevant regulators (FSA, The Pensions Regulator, DWP etc.) should agree and clarify the relevant rules under which Personal Account financial advice should be given.

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

There might be useful examples we could learn from, but the Review team should also bear in mind that the complex tax, benefit, and pension system of the UK means superficially attractive models from overseas might not be easily imported. Examples such as New Zealand are rightly cited, but the savings environment in New Zealand is infinitely less complex and does not suffer from means-tested benefits in the way the UK environment does.

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

No comment

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?

This question is connected to concerns about whether a convincing case for an expansion of generic advice has been established as is presumed by the Review’s Terms of Reference. Whether or not there is unsatisfied demand that justifies an expansion of provision is a fundamental question for the Review that should be addressed by both gap and cost-benefit analyses before proceeding to consider a solution and how it might be funded.

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?

See comments above.

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

Resources will inevitably have to be targeted and we have suggested in our “General comments” that there are good reasons why the service might wish to focus on low to moderate earners. If the concern is primarily about the need to save appropriately, the focus should not be on those who are already saving but who could make even better savings choices.

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

This question suggests that the Review has already defined the target market? We believe that given resources will be limited the focus of generic advice should be on the more economically vulnerable groups.

Prudential’s own experiences of promoting financial capability, particularly to hard to reach groups, have demonstrated the importance of fully involving community and voluntary organisations. In 2006, Citizens Advice undertook an independent evaluation of projects promoted by our Financial Skills for Life programme and concluded that Bureaux had achieved real and sustained outcomes with hard to reach groups. Individuals had significantly improved their ability to budget and save.³

The evaluation highlighted a number of key financial capability lessons. Bureaux found that it was effective to make face to face lessons tangible and relevant to participants’ own situations, enabling beneficiaries to put information into practice within the lifetime of the project and that the key to effective delivery was to offer structured lessons with enough flexibility to cater for the needs of individual target groups.

The Review team should consider carefully the apparent need for face to face advice, and it’s high cost. It would be a serious mistake to think of prospective generic advice clients as blank canvasses onto which a template of ideal financial behaviour can be easily imposed over the telephone. Preliminary research by Resolution Foundation that a telephony model would be effective is deficient in that the group surveyed were contacted by telephone and are therefore less likely to state that telephony is an inappropriate model. In reality people will make contact with the service because they have problems that will often be unique to them and will involve existing product holdings and financial commitments. The ease and effort to develop advice scripts to deal with all these unique situations should not be underestimated; nor the scale of the task to monitor that the advice given is in accordance with the agreed scripts.

The Review team needs to consider whether such issues could be easily explained and understood over the telephone. As part of this, the Review should look at existing telephone services, such as the National DebtLine and NHS direct, and evaluate how well different delivery models work, and whether such models are transferable to generic advice.

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

The main focus of generic advice should be personal accounts and debt management, then cash savings accounts and protection. Other insurance products should not be a high priority for the target group.

³ www.citizensadvice.org.uk/index/publications/financial_capability_publications.htm

On Personal Accounts, the key messages for individuals on opting out and investment choices need to be agreed by Government and regulators (including the FSA) and to be equally applicable to workplace schemes which exempt their employer from having to offer personal accounts. Employers should not have to develop these messages themselves.

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?

We would support a change to the regulations so that we can give what consumers think of as 'advice' (common sense guidance) provided we can use this with appropriate consumers to move towards a 'sale' (from advice with lower case 'a' to Advice with upper case 'A'). We believe this could work well where one provider does both stages of the process, but will work much less well if there is discontinuity due to different providers for generic and regulated advice sessions. The Review team should bear in mind how hard many people find it to engage in financial matters and that a "one and done" service will usually stand a better chance of keeping the consumer engaged.

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

There already exist a number of known and trusted organisations who could refer people to generic financial advice, including Citizens Advice, the National DebtLine, Money Advice Trust, the FSA, financial services organisations and others. The Review team should consider how well existing arrangements are working and whether they could be improved.

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?

It should be possible to refer people to a commercial provider so that consumers can act on their adviser's recommendations. However the Review team needs to bear in mind here the comments above in answer to BS5 on consumers' preference for a "one and done" service.

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

No comment

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

The Review team will be aware of issues arising from the FSA's approved persons, and Conduct of Business regimes. It would be useful if the Review set out in a consultation paper what they thought the current problems were together with recommendations as to how they can be overcome.

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

The concept of a "portable fact-find" that can reduce the existing fact-find process has initiative and immediate appeal. However our experience is that most good IFAs see the fact find process as something that both discovers the "hard" facts of an individual's financial situation and creates empathy and reveals "soft" facts such as what people want the money to do, their attitude to and understanding of risk, their degree of aversion to taxation etc. IFAs also tend to regard knowing their customer as a core activity, and a fact find as a key part of that activity.

It is easy to imagine that using a portable fact-find would also raise regulatory concerns in the minds of IFAs. Would IFAs feel confident that the portable fact-find was up-to-date and accurate so as to allow them to offer good advice in confidence?

In view of this, we are sceptical as to whether the concept of a portable fact find will significantly reduce the processes IFAs go through to get to know their customer. It might be that the portable fact find, allied to an expanded and de-regulated basic advice regime, is applicable to other models, but we would urge the Review team to start from the position that while this idea has immediate appeal, it may not in practice be widely adopted by advisers.

Turning to product providers, assuming that there is no requirement to fund generic financial advice, we believe the impact will be limited. Some commentators have argued the industry will benefit both from increased product sales and reputationally.

Neither scenario seems likely however. It is true that if a need can be identified and effectively served by generic financial advice, then consumers who ultimately change their financial behaviour will have an impact on financial services firms. We expect that this will overwhelmingly take the form of a rationalisation of debt rather than an increase in savings. Deloitte's modelling for the Resolution Foundation suggested some commercial benefit to providers of medium and long-term financial services. We believe their analysis is deficient and incomplete and have set out why in the answer to question CS2 below.

As for reputational benefits to product providers, if the generic advice service does not feature industry branding then the reputational benefit to the industry is likely to be limited or non-existent as most consumers would be unaware that the industry had anything to do with the service. Indeed by explicitly trumpeting its "independence" the service may even serve to reinforce perceptions that the industry suffers from bias and does not have consumers' interests at heart.

C. Cost and funding

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

We have commented on funding a new generic advice service in our "General comments" at the beginning of this response.

Free advice at the point of delivery should help to encourage use of the service. Given the current availability of free-to-the-consumer generic advice, and the income levels of the target group, the service is likely to find it much more difficult to attract clients if charges are applied at the point of delivery.

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)?

The question is ambiguous. There is obviously a cost to each generic advice session, and the question is whether that cost is worth paying in terms of the benefits delivered. It is difficult to answer this without a robust cost-benefit analysis and potentially some pilot studies, to get a feel for what works in practice.

If the question is seeking to establish whether there is a case for providers to fund generic advice, then one reference point in the debate so far is the modelling work commissioned by Resolution Foundation from Deloitte looking at the potential benefits to product providers. Unfortunately the modelling suffered from some fundamental weaknesses:

- Personal Accounts are explicitly excluded from the model. This is a serious shortcoming because any projected increased savings due to generic advice is unlikely to occur if they are already saving into Personal Accounts. A further consequence of excluding Personal Accounts is that the Deloitte model effectively double counts reduced expenditure on Pension Credit (a benefit to taxpayers), as reductions are forecast by the Government to accrue anyway as a result of Personal Accounts;
- although we do not have access to the full workings of the model, it appears to assume that consumers who rationalise debt subsequently invest a very high proportion of the "savings" from lower debt servicing in medium and long-term savings products. Given the culture of borrowing and consumption in the UK, we think this is simply unrealistic. A more likely scenario is that such "savings" are either spent, used to service more debt at

a lower interest rate, or saved in cash-based products. Saving in medium and long-term savings products, on top of Personal Accounts, seems the least likely outcome.

- the model does not allow for changes in behaviour by financial services firms in response to changes in behaviour by consumers; for example banks might raise interest rates on more competitive products if they suffer from loss of revenue on products with less competitive rates;
- the model assumes that 20% of the target group will use the service and act on the recommendations given. This assumption needs to be supported by evidence, for example from a pilot study;
- the model makes no allowance for the time-cost to consumers of attending a generic advice session and subsequently acting on the advice – moving debt to products with interest rates and so on. This cost has to be set against any benefits arising from acting on the advice.

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

The only way to come to a sensible view on this is to evaluate real-world provision of generic advice. In addition pilot studies could be run to give further insight on the likely outcomes of a generic advice service.

We would expect the primary beneficiaries of generic advice to be:

- those receiving advice, through more effective management of their finances;
- the state and therefore taxpayers, through lower benefit expenditure.

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?

As far as possible, the guiding principle should be that those who benefit should pay. As stated above, the main beneficiaries are users of the service and the Government (taxpayers). We have commented further in our “General comments” at the beginning of this response.

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”?

A good start would be to have proper evaluation of the FSA financial capability programmes that are now underway. These should be evaluated for reach and impact before any new service is created.

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?

The considerable expenditure on advertising stakeholder pensions failed to generate sufficient interest to justify the costs. The Review team need to explore why this was the case and whether generic advice is likely to be similar or achieve better results.

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

The Review team should be careful with analogies. At a Resolution Foundation seminar on generic advice in March 2007 the analogies of Government campaigns to reduce drink-driving and the non-wearing of car seatbelts were used. It is true that both campaigns have had considerable success, but they were aiming to change behaviour that poses a significant and immediate threat to human life. Moreover in both cases the desired outcome involved mandatory compulsion enforced by criminal sanction. The same cannot be said of generic financial advice.

While drink-driving and wearing seat-belts are related to everyday activities that are readily understood, the Review team needs to be conscious of the abstruse nature of financial concepts for most of the target market. Analogies of behavioural change that relate to financial behaviour are likely to be of more relevance to generic advice.

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

No comment

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.)?

No comment

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

The workplace is attractive if employers are willing to support such sessions. The FSA's workplace programme should be evaluated and potentially extended if it is delivering positive results.

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

This is a question that should be, at least in part, answered by evaluation of existing services, gap and cost-benefit analyses, and new pilot studies. Our sense is that with the exception of Personal Accounts the effect of a generic advice service is likely to be small and largely confined to better debt management. As stated earlier, substantial debt advice provision already exists, much of it funded by the taxpayer.

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)?

It remains Prudential's strong belief that the FSA, which already has statutory responsibility, should deliver any such generic provision. We would be opposed to any new body particularly one with levying powers but no counter-balancing interest in the viability of the financial services sector.

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

The FSA should remain the body responsible for any such provision.

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

Any such body should seek to co-ordinate existing provision.

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

No comment

Questions A01 – D05

We have either answered these questions earlier in the submission or have no comment.

**Prudential plc
27 April 2007**