

The Thoresen Review of Generic Financial Advice

Call for Evidence

Response by SVARfair

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Introduction

SVARfair has been actively involved in many aspects of developing the current thinking around generic financial advice (GFA). Looking at it from the perspective of any commercial applications as well as its use in the not for profit, charity and Government funded sectors. Our vision has been to increase both the quality and availability of GFA services and we have consulted and worked along side many of the UK's leading money advice agencies, charities as well as organisations in private sector to look at the potential to deliver GFA within existing frameworks. There will also be new emerging providers who may look at this as an opportunity to become a trusted provider of GFA.

We have advocated the need to establish a quality assurance scheme for all providers to adopt and we have responded in particular in this report to the aspects regarding 'Institutional arrangements and governance'

Delivery of a National GFA Service for all is a key element to making GFA acceptable to both consumers and providers. The overlap of competent 'Money advice' with "generic financial advice" – i.e. personalised but unregulated - financial advice is **much** greater than it may first appear. Access and awareness of 'Money Advice' is increasing as demand grows and we believe that with adequate funding , extending Money Advice services into the wider provision of a National GFA service under a new brand could work very effectively. The seamless service that could result for those in crisis and needing to be referred onto money advice very early on in the GFA process would address the many concerns about the problems of those in crisis being referred off onto another service, feeling there was yet another hurdle to jump to get help.

Section we have answered

- **Strategic Issues**
With particular reference to Institutional arrangements and governance

A. STRATEGIC ISSUES

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?

We are aware of many web based services that are being established in the private sector along with some commercially based ideas that are being developed based on the 'generic financial advice quality assurance standards' We have contacts with several organisations some of whom the FSA put us in touch with, who are planning to build a service for their existing and new clients who need direction and reassurance but who do not want to be sold financial products. It is important to be clear that at this moment there is no standard protocol in place to make sure that there is a *fair* way of referring on to a broad range of follow up services so many organisation at the current time can say that they offer GFA but in reality could use it, for example, as a filtering tool to generate leads to product sales

Below are some examples of web sites that are developing GFA services that are in the public domain and therefore not commercially sensitive

<http://www.financial-coaching.co.uk>

<http://www.makesenseofit.com>

<http://financialplanner.moneyextra.com/>

<http://www.learnmoney.co.uk/>

Various holistic planning done by IFA firms could be considered Generic Financial Advice

There are Government funded sites such as;

<http://www.pensionsadvisoryservice.org.uk> (specialist GFA provider pensions only)

<http://www.nsandi.com/youandyourmoney/index.jsp>

http://www.a4e.co.uk/Public_Sector_Financial_Inclusion_Advice.aspx

Not for profit and charity examples are:

Age Concern in partnership with L&G and DWP is due to launch a MoneyTrail electronic tool in May 2007,

<http://www.ageconcern.org.uk/>

Help the Aged

<http://www.helptheaged.org.uk/en-gb/AdviceSupport/FinancialAdvice/>

And the specialist debt line that it would be possible to extend into other financial areas http://www.nationaldebtline.co.uk/england_wales/index.php

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.)

We would be unable to give *accurate* information on the above.

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

It is important to be very clear that the consumer perception is that is ‘financial advice’ not simply guidance, information or education – An aspect that differentiates GFA from simply being informative is that there is a definite “call to action” following generic financial advice

Currently this still appears to be confusing commentators and is thus resulting in the provider being unclear as to whether that what they provide is GFA

This confusion is unnecessary

See also the FSA definition within our draft code of practice

http://www.svarfair.co.uk/images/razni/File/The%20GFA%20code%20_Consumer%206%20Jan%202007.pdf

And for a simple description that could be easily understood by consumers

‘Sound, practical advice about your money options that will improve your financial health if you want to do something about it’

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

The Dutch equivalent of a state occupational pension scheme requires some compulsion to a regular financial review

There are various websites such as the excellent

www.sorted.org.nz.

Australian consumer models tend to lead the way in the world in financial services and generic financial lifestyle planning and financial behaviour sites exist with interactions, generic communications, annual statements and responses to ad hoc enquiries, benefit calculations and confirmation of telephone queries - all coordinated through a ‘platform’. The following article covers some of the regulatory issues they have gone through regarding general and personal advice

<http://www.moneymanagement.com.au/articles/86/0C039486.asp>

Money makeovers – Yahoo for Australia and New Zealand – for example

http://au.biz.yahoo.com/switzer/makeovers/05102006/teenagers_money.html

See examples of disclaimers on their sites such as

Disclaimer: This is generic financial advice only. Any investment decision should be made after careful review of your individual financial situation, risk tolerance, investment objectives and time horizon.

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

You will no doubt have all the Resolution Foundation reports and the research commissioned by the FSA including the FSA & Citizens Advice research into delivering financial advice via CABx

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

The Generic Financial Advice Code. SVARfair
“Creating consumer confidence and reducing provider risk” (Jan 2007)¹

The National Consumer Council’s ‘Bridging the Gap’

Responses to the FSSC consultation for delivering National Occupational Standards for Generic Financial Advice

Building Financial Capability in the UK: the role of advice
A Response by NIACE to Consultation from the Financial Services Authority
Published: September 2004

Trade bodies such as CII /PFS and AIFA have all carried out recent research

PFS research on GFA June 2005
<http://www.ifawebshow.com/ifavisitor/news/archive/pr285.html>

Please also see OECD report Recommendation on Principles and Good Practices for Financial Education and Awareness

<http://www.oecd.org/dataoecd/7/17/35108560.pdf>

Gauging the Demand for Free to Client Money Advice - March 2007
Money Advice Trust

¹ 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?

Yes we do believe that it could be delivered by extending the current infrastructure of financial advice provision – in particular the money advice sector could lead this service under a new discrete brand complimented by **private sector provision**.

SVARFair's view is that any telephone and web-based channels, and, in essential cases, face-to-face generic financial advice services need to be delivered on as broad a scale as possible.

All existing sources of such advice could be fully engaged such as the commercial sector, trade unions and charities provided they had sufficient confidence in the process and understood the commercial case for this involvement[e.g. with initiatives related to provider responsibilities see below.]

The commercial case for established providers to offer GFA often requires a longer term view that considers offering GFA in the context of CSR, principled based approaches to compliance [e.g. Provider responsibilities] and treating customers fairly [TCF] and retention strategies

See

Using Generic Financial Advice (GFA) to improve customer relationships
Policy Persistency, Client Retention, Orphans

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

The Business case for Generic Advice is - it's good for business

<http://www.svarfair.co.uk/index.php?op=library&nid=80&lan=EN&tip=1>

Sustainability is paramount so relying on perceived pro bono services which may be linked to sales to cover costs is not feasible longer term

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?

A National Service cannot be in any way exclusive. There will always be those that are unable to pay for their advice and it is essential that GFA, no matter how it is provided is of a quality that will enable consumers to make informed decisions and, importantly, move forward with their options and plans
People from all socio-economic backgrounds can be poor money managers and complacent about their failure to grasp even the very basics. Therefore any

proposed national GFA service should not make sweeping assumptions about financial capability and either target for inclusion or exclusion on the basis of income/wealth or social class.

Seeking generic financial advice should not be stigmatised - it is not just about financial exclusion. Seeking GFA should be seen as a way to improve your financial health. That way you could engage with consumers who maybe able to pay for advice but do not usually take it. They might then in consequence of this GFA go on to further advice which they may need to pay for.

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

Everyone should be able to benefit from GFA. However in the case where there is a financial crisis and money advice is needed urgently then that individual needs referring on seamlessly and quickly. Some form of monitoring will be needed to ensure that this happens.

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

This is a very though provoking question – defining the **TARGET MARKET** is surely ‘anyone without financial capability

Firstly it is important not to make assumptions on this very invisible problem – and it is not easy to check the financial capability of colleagues. Some of the best paid in society have appalling debt levels because of social and lifestyle pressures and gambling. So GFA needs to be de stigmatised and promoted as something we must all do if we have any money concerns.

Possible venues which may carry promotional material might be retail outlets and doctors surgeries/clinics and care homes both residential and nursing

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

See the underpinning knowledge and understanding of the National Occupational Standards and the FSAs outline of broad knowledge (May 2005)

This has already been defined quite carefully with industry consultation
The competence levels and the ability of the adviser / interactive websites, is way beyond what may be at first be assumed, needing a very broad range of understanding and skills. GFA providers must be very good GPs in all money matters.

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?

This has already been defined well by the FSA (May 2005) and the National Occupational Standards for Generic Financial Advice see -GFA5
http://www.fssc.org.uk/cgi-bin/wms.pl/Standards_and_accreditation/436

A consumer understanding is such that if they want advice and you give them generic financial advice, then no matter what caveats you add they will feel they have had financial advice – that is why a consumer facing code is important with some commitment and responsibility coming from them (see recent FSA comments on Caveat Emptor) for their own financial well being as well as for the provider. Regulation has crushed individual responsibility in the past and this is a way perhaps to restore it.

As for providers - as long as the advice is completely disentangled from a product sale then you have a natural boundary. With a standard accepted referral process covering 'What to do next to progress your advice' (We have a draft available that would meet this requirement) then the boundaries would not be a concern and all providers who abided by this standard giving reassurance that they were offering was truly GFA.

All providers would agree to abide by the 'Standard' to ensure quality and a handover process – governed by a code of conduct

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

- Solicitors and accountants when they do not wish to offer GFA themselves
- Product providers when unable to offer generic advice when a customer asks
- Medical practitioners
- Social services, probation services
- Care Home Sector
- Educational establishments
- Community groups
- Not-for-Profit (NfP) without generic financial advice services
- Commercial debt / solutions and credit providers
- Other money advice organisations such as Credit Unions,

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?

See our answer to BS5

Referring to one specific named commercial organisation (unless they are the **only** option) would not meet the National Occupational Standards. Using the referral process as defined by the National Occupational Standards and the 'generic information' as to what to do next, previously referred to would mean all GFA providers would give equal weighting to how / where to progress GFA. It could well include commercial providers who 'recognise the GFA standards' and who could completely trust and rely on the GFA provided.

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

Qualifications are part of the requirement as they test that a base knowledge and understanding have been achieved – however it cannot be the only measure of competence – The CII have produced an online competency assessment tool to support generic advisers. Other providers qualifications have and could be, mapped to the requirement of the National Occupational Standards for providing GFA.

After the knowledge and understanding has been acquired (including ongoing updates CPD) the most important part of will be the quality of training that the advisers get to test their competence and that would have to be on the job training. The money advice sector excels in this area and this existing resource if funded properly could be utilised very effectively. We have indicated this view to several major organisations in the money advice sector and our idea regarding 'gap' skills training.

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

SVARFair have examined these aspects with representatives of several legal organisations such as the Law Society in the context of presenting the proposed format for the Generic Financial Advice Council [see above] Consideration has been given to the status of advisers in the context of compliance with the Appropriate Advice Standards [FSSC see above] and the negation of the causal link element which is fundamental to the principle of negligence

We would be happy to discuss our meetings and briefings on this aspect if appropriate

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

Capacity and resource to deliver additional services are always an issue but where GFA could be integrated cost implications may be better.

NfP money advice services could be in danger of being swamped if they are not funded to a level whereby they could cope as they currently have capacity issues meeting existing demand.

Commercial advice providers' advantage is that GFA should improve their ability to engage and retain customers and help change outdated models of customer engagement (CRM)

C. Cost and funding

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

A 'national service' should always be free to consumers at point of contact although commercial generic advice services could be charged for where they are set up (think private medical insurance, fee based advice – what extras would someone that could afford it pay for? speed, access, more choices of provision but not at the cost of a quality standard for all.

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)?

Yes we have several examples. Both product providers and national IFAs see that their current client base is moving towards wanting to split advice from product purchases especially in 'later life' where products are not necessarily a requirement.

The FSA retail review is steering the industry away from commission based products and more direct to market products will become available such as the recent launch of dual priced Fidelity / Standard Life SIPP

As soon as the market is transparent then it will be clear that authorised financial advice is never truly 'Free'

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

Resolution Foundation have done some work in this area

We would expect that in the longer term more customers picking the right products. e.g., life assurance and pensions products (help with the new Personal Accounts) would reduce reliance on state benefits.

For providers it may take some time to measure although we know of work to benchmark this and where providers (AXA for example) have experimented in

advising customers and measuring the effect that has had on their financial wealth and well being. The overall financial benefit to individuals of owning assets is never really explained properly, but by building asset ownership, the potential to accumulate personal wealth also increases.

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?

This is difficult as the main stakeholders are likely to be the Financial Services (FS) industry and the Government – The FS industry may take time to understand the benefits (we believe it is similar to the climate change debate and how slow business has been to see the benefits of being involved) Looking at existing money advice models that banking and product providers are currently supporting would be useful

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”?

Not that easily unless there is an absolute ‘guarantee’ the GFA can be relied on and then there is a cost saving for regulated advisers and product providers alike ,by being able to reduce their input front end regulated fact finding advice process. We have devised a model of how that could work

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?

De-stigmatise poor money skills – emphasise confidentiality – highlight the good uses of debt in society as a means to buy assets or start businesses – change the ‘saving’ mindset.

We are particularly interested in various projects that are looking at the change in the way people view savings and are speaking with ‘The Tomorrow Project’ at Oxford University about this.

If a GFA service was generally available this would encourage greater interest. Younger people are very interested in money but somehow his interest trails so keeping them interested through web based initiatives would help

The recent rewards system for healthy choices whereby young people 14-18 could cash in points for cash is a model worth looking at

Basic skills such as working out percentages or being able to compare mortgage deals are sadly lacking regardless of education - even graduates struggle. Having a personal account online for everyone linked to pension and savings provision would help give everyone an incentive in their managing their own finances

Financial Capability emphasis has been very much on the younger age groups but those in later life are not only living longer (up to 25-35 years in what was traditionally retirement) but have more complicated financial decisions to make without know how or the ability to access information. Working with charities and organisations that understand this growing sector would have a big impact on the economy and the funding of care in later life, understanding of the opportunities and for actively managing the 'decumulation' of assets.

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

- The 5 a day campaign
- Driving safety advertising – don't drink and drive – clunk click
- NS&I - Alan Sugar and interest in premium bonds
- Smoking Kills
- Mind your Cholesterol – actor Ray Winstone
- AIDS Ignorance Kills

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

A National GFA service would need a new brand and a significant marketing effort to position itself alongside existing services to avoid any perception that the service is associated with consumers 'being in trouble'

Trusted – universal – clear – free- independent -de stigmatised i.e. not for just the financially excluded – Like the Post Office, NS&I and John Lewis

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.)?

A good campaign to promote with free phone access must be telephone for majority of cases. Telephone is non intrusive and proven highly cost-effective and is suitable for most consumers. Those with difficulties such as physical, learning language barriers need other access points

Web based services need more work but potentially web through TV will become a good way to access GFA

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

GPs surgeries (out of hours too) Banks (with coffee shops, libraries and supermarkets are both services that all socio economic groups use – no point segmenting as it may stigmatise Advice

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

Yes in time it would however financial capability takes time and there may be a time when users may not be in the financially excluded category – more in the categories of informed just checking or with specific ideas in mind.

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)?

Existing GFA services are understandably concerned that in implementing some form of governance for GFA, this will - in time - lead to statutory regulation. Keith Boyfield, the chairman of the Institute of Economic Affairs' Shadow Regulatory Policy Committee points out, "The onerous compliance costs and inflexibility often associated with statutory regulation of financial services, coupled with its deterrent effect on those offering such advice, suggests that formal intervention may, in practice, significantly circumscribe the availability of reputable financial advice. Perversely such a move may seriously damage consumer welfare"

So ensuring that GFA remains 'unregulated' is paramount, as is ensuring that both existing and new providers of GFA services do not stray into regulated advice. The FSA consumer panel argued that the GFA model should be built along the lines successfully employed in the professional firm's arena. The question of delivering a workable liability and accountability arrangement could also be a challenge in the absence of any prevailing framework. It is crucial that advisers and consumers understand clearly the nature (and limit) of the service being provided; the undesirable possibility of poor "advice" being given – and acted upon – needed to be mitigated

Where GFA providers agree to abide by common 'Standards' and a voluntary consumer facing 'Code of Conduct',², an independent scheme of Governance underpinned by appropriate protocol, audit and mediation would be required.

It would be represented by a number of relevant stakeholders such as:

- Central and local government departments , the commercial sector as advice providers and providers of financial products, Consumer bodies Money Advice agencies UK wide including Citizen Advice, Charities, existing GFA services

We have had many discussions and meetings with key bodies around the development of a Generic Financial Advice Council (GFAC) and more information can be found at <http://www.svarfair.co.uk/>

We suggest that such a body would provide overarching governance and administration including

- Membership registration and on-line administration services
- Updating of and application of Standards and the Code of Conduct
- Audits
- Access to information and guidance on areas such as software and qualifications for advisers
- Consumer services for information – both online and telephone
- A Mediation Service
- A Management Committee and Board

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

Accountability measures to assess the service would be essential to ensure the service was delivering with regards to numbers of calls, types of calls and users,

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<http://www.svarfair.co.uk/images/razni/File/The%20GFA%20code%20Consumer%206%20Jan%202007.pdf>

referrals and particular monitoring of the outcomes of the advice – what the consumer did next

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

We don't believe a brand new delivery body is needed if existing services can be geared up to meet the standards and the potential demand. The new service should be fully independent both of Government and industry funded by private public partnership seems the most plausible way. Practically more leverage off the experience of existing organisations with relevant experience such as National Debt Line, Consumer Direct, Money Advice Centres, Citizens Advice, Age Concern and credit unions is needed

Establishing the Council of GFAs (GFAC) would be on the basis of a not-for-profit making company, limited by guarantee operating under a Council composed of an independent board of not for profit and private sector Directors as well as the professional bodies and others who would represent both consumers and the membership

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

A levy of on all product providers may not work as it may not necessarily be seen as a benefit in the shorter term to this sector so a model in line with the way Money Advice services are funded, through public and private partnerships may work for a free National GFA Service. Commercial services would fund themselves operationally but would pay subscription to be members of the council

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