

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

Your reference

Our reference

Date 23 April 2007

Generic Advice Review - Call for Evidence

Zurich Financial Services

Dear Otto

UK Life Centre  
Station Road  
Swindon  
SN1 1EL  
United Kingdom

Thank you for offering us the opportunity to contribute to the review of generic financial advice. This is obviously a huge subject, which is difficult to address in a practical way. We think that three considerations should help focus activity:

- First, a single service providing advice directly to individuals on a one-to-one basis will be hugely expensive. Given current pressures on public spending, it is hard to see how such huge costs could be justified. A far more effective solution has to work through existing provision, rather than competing with it.
- Second, the trend amongst consumers is towards more borrowing and less saving. Low interest rates, rises in property values and the ready availability of short-term loans and credit cards means that it is harder than ever for consumers to ignore the temptation of short-term spending over long-term financial planning. It seems reasonable that a generic advice programme should attempt to redress the balance between short- and long-term financial skills by encouraging basic financial skills such as budgeting.
- Finally, many vulnerable groups do not need advice on financial products. The most valuable advice they can have relates to claiming benefits, reducing unnecessary expenditure (for example, saving on energy bills) and basic financial skills. A generic advice programme that is aimed at the most vulnerable should be designed with this in mind, and should not be a watered down version of the advice process defined by FSA conduct of business rules.

Telephone +44 (0)1793 511227  
<http://www.zurich.co.uk>

With this in mind, we believe the most effective generic advice programme is one which:

- Builds on existing advice provision
- Gives a strong message about the advantages of long-term financial planning, including the advantages of long-term saving, investment and insurance
- Targets vulnerable groups with advice that will be relevant to them, focussing on helping to build basic financial skills

Our detailed answers are set out below. We have given answers to the 'strategic' questions where we feel we have a contribution to make. We have not given a written response to the 'operational' questions, since our communication with customers covers a wide range of situations and media. We would, however, be very willing to discuss any aspect of our operations with the review team in more detail.

Yours sincerely

Matthew Connell  
Principal, Government and Industry Affairs, Global Life

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

Generic financial advice is advice that helps people improve financial skills – budgeting, shopping around, evaluating their own financial needs, rather than advice that recommends a solution.

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

There is a huge wealth of research from the US based on encouraging saving. However, the context of this research is one where employers have strong fiscal incentives to enrol as wide a range of employees as possible into pension schemes. As a result, this research can indicate *how* to encourage saving in the workplace, rather than *why* employers might take part in providing generic advice.

The FSA has, of course, also produced a comprehensive body of research as part of its financial capability project.

Finally, in 2001, Zurich worked with a financial services charity, the Money Management Council, to provide generic financial advice through Citizens’ Advice Bureaux, and we would be happy to share that research with the review team.

**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?**

Providing individually tailored help and advice to all UK adults is a massive project. For example, according to the National Audit Office, in 2004 careers guidance to young people cost £450 million and required 7,700 Personal Advisers and more than 2,400 other front line staff. Direct provision of generic financial advice would be an even bigger project, because it is aimed at a wider group, it is harder to target the right people and it has to cater for more diverse needs.

The scale of the challenge means that it is unrealistic for a single body to deliver this service. The kind of structure that is needed is one where a partnership of voluntary groups, Government, industry and regulators sets a strategy, within which individual organisations – both commercial and non-commercial – can develop more specialised activity.

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

There are messages that a generic advice programme could give to a wide audience, based on educating people about their financial needs. These include the need to save for the long term and the need to protect dependants.

Any specific, individual help should focus on those in most need. As the Oliver Wyman study into the provision of financial advice in 2001 showed, households with high levels of income or assets are well served by financial advisers. As the call for evidence states, helping people with extreme debt problems is a separate issue from the provision of generic advice.

This leaves a large number of people - perhaps ten million households - who currently do not have good access to advice.

The best way to tackle this gap in the provision of advice is to encourage market solutions, through a lighter-touch approach to regulation. The market is the best way to deliver solutions to many groups, because it allows for more diversity in the provision of advice, more innovation in the way advice is delivered, and competition means that forms of advice that are popular with consumers thrive, and advice channels that do not cater for consumers' needs fail.

The FSA's review of the basic advice process is one route to widening the provision of advice. However, more fundamental issues affecting all forms of advice provision are the number of different organisations involved in the regulation of advice (FSA, the FOS, the European Commission, CEIOPS, the Office of Fair Trading etc.). Each organisation imposes its own standards and expectations on advisers, in both formal and informal ways. This means that the regulation of the advice process is constantly being amended, often in contradictory ways. This forces up the cost of regulation, and increases the number of households with restricted access to advice.

Once market issues have been resolved, generic advice has a valuable role to play in two ways:

- It can deliver an authoritative message that says taking steps to prepare for the future through saving and insurance is a 'good thing' – reassuring people that policy will support and reward people who do this
- It can give guidance to people who are unlikely to be served by the market. These include individuals on low incomes who may need help developing skills such as budgeting and elderly people on low incomes who need advice on issues like claiming benefits more than they need advice on financial services products. For example, it is interesting that the 'financial advice' pages of the Help the Aged website cover budgeting, claiming benefits, care home funding, tax, making a will and pensions – only a subsection of the last category relates to financial services products.

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

Yes – groups with sophisticated financial needs (such as tax planning) and groups which can afford financial advice that is provided commercially. These groups need not be excluded, but they should not be targeted.

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

General messages should be delivered through media that are used by the target group. Specific messages – e.g. help with financial skills such as budgeting – should be delivered in a way that is not too intimidating – for example, in groups that already exist (in the workplace, social groups) rather than in a one-to-one setting.

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

The content should focus on developing skills – (identifying needs, planning, budgeting) rather than telling people what to do (recommending products).

Consumers are exposed to far more advertising promoting short-term lending than longer-term financial planning (saving and insurance). In addition, the short-term attractiveness of borrowing is far greater than the deferred gratification of longer-term saving and protection. Given the high levels of current consumer debt, and the relatively low level of saving in the UK compared to most other western countries, it is reasonable to expect the generic advice programme to highlight the importance of planning for long-term financial goals.

**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?**

Generic advice should aim at building skills rather than telling people what to do – as such, generic advice could be advice that does not come with a recommendation.

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

All organisations could refer people to this kind of advice, or even provide it themselves, including voluntary and public organisations. There must not, however, be any regulatory obligation for commercial organisations to refer customers to a generic advice service before giving advice on commercial terms.

**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?**

The more specific the referral, the more the advice service will be liable for anything that goes wrong. Once consumers have a clear idea of their needs, commercial providers should be relatively easy to find.

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

Training should concentrate on the boundaries of generic advice, common, basic financial needs and the skills people need to develop to manage their own finances.

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

The recent controversies over official leaflets giving information on final salary occupational schemes have shown that even the most apparently innocent and restricted information can give rise to significant liabilities, even if it not considered to be regulated advice.

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

There should be plenty of room in the market for generic advice and commercial advice to co-exist, provided that generic advice is aimed at people who cannot be served by regulatory reform. The main problem would be if commercial advisers are obliged to recommend a generic advice service. This would leave any generic advice service chronically overburdened, and reduce the overall availability of advice for consumers.

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

Making advice free at the point of delivery has potential problems:

- Advice given through the generic advice service would be subsidised by taxpayers (including people on low incomes) or through financial services providers (and ultimately through consumers).
- Experience with many services provided free at the point of delivery shows that middle-class users often exploit them more successfully than those from the most vulnerable groups. For example, NHS spending is often higher in wealthier regions, and in 2000, the FSA reported that, 'Research suggests that the users of the FSA's information services are likely to be more sophisticated consumers'.

As a result, an untargeted generic advice service could involve cross subsidies from those on low incomes to those on higher incomes that would be difficult to justify.

A service free at the point of delivery should only be free where it can be seen to be serving people who cannot be served by the market.

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

Measurement should be based on behaviour – it should be possible to survey a sample of users of the survey, and to check if the programme has changed their long-term financial planning.

**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?**

Contributions should be calculated on a risk-based model. From a commercial point of view, organisations whose overall service works against sensible, long term financial planning, for example by operating on a business model that is heavily based on short-term lending, should make the largest contribution to the service. Similarly, Government reforms to the benefit system could be audited by the National Audit Office or by voluntary organisations, and the contribution the Government makes to the scheme could be linked to the complexity of the benefit system.

**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”?**

By applying an appropriate hourly rate to the average amount of work involved.

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

This effort will take many strands, but must include:

- A steady line from policymakers about the importance of individual responsibility
- Avoiding a ‘compensation culture’ – consumers have little incentive to take an interest in their finances if they believe they can claim back any losses made with the benefit of hindsight
- Rewarding consumers who do take responsibility for their finances with appropriate and stable fiscal policies
- Presenting messages in a meaningful way to consumers
- Focussing on developing skills rather than making recommendations
- Allowing private sector players to make a profit from long-term savings and protection, so that they have a commercial incentive to augment the effort

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

Drink driving campaigns are often cited – although these campaigns are based on shock tactics, whereas helping consumers develop financial skills should be based on more positive messages.

Any lessons that can be learned from the area of health campaigns, such as health eating and exercise, could also prove valuable.

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

The brand should be adaptable, so that it can be delivered through different channels.

**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.)?**

Recommendations are best made through a lengthy one-to-one process, which would cost hundreds of millions of pounds to deliver.

More general guidance on building financial skills and general needs can be done in a group setting, and there is evidence that individuals prefer to receive this kind of information as part of a group, as it involves less disclosure about private, personal circumstances.

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

Experience in this part of the market suggests that individual preferences vary widely, even within segments – for example some customers like the convenience of meeting advisers in their own home, others want to keep money issues separate from a domestic setting. This is why advisers that are prepared to be flexible over where they meet their clients are often far more successful.

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

It could lead to a change, but only at significant cost. It is also worth bearing in mind that many factors are working against individuals seeking help with long-term financial planning at the appropriate time, for example: easier access to short-term

debt, the sense that rising house prices will rescue people from financial hardship and the ongoing debate over the relationship between means-tested benefits and long-term saving.

This means it is vital that the efforts of any generic advice programme are properly targeted at those most in need of help, and that a rigorous cost-benefit analysis is carried out before the project begins.

**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)?**

There should not be a heavy superstructure to these efforts. The Treasury should lead the strategy in partnership with stakeholders such as consumer groups, voluntary groups, the industry and regulators.

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

The Treasury should be accountable for the success and cost effectiveness of this policy, through the usual channels (Parliament, Treasury Select Committee, public debate etc.)