

## **ABI Conference 10 May 2007**

### **Speech by Otto Thoresen**

Good Morning. I'm delighted to be here to talk about "tomorrow's customers". My focus is financial capability. And in particular I'm going to set out my emerging thinking on the work I am leading to research and design a national approach to Generic Financial Advice.

I want to use the occasion to remind us all why this Review is needed, to emphasise the opportunities it presents for us, to start to address head on some of the challenges it raises; and indeed to counter the doubts I have heard expressed from some stakeholders.

It will do no harm to set out again how we got to where we are now. It began for me in January, when Ed Balls asked me to head this Review as part of Government's wider long-term Financial Capability Strategy. Though interest in the issue goes back well before then. There has been increasing awareness in all sectors – in Government, in the Industry, and amongst organisations representing consumers – that the range of financial products

available to people is growing in range and complexity. People are increasingly expected to take greater personal responsibility for their long-term financial well-being. At the same time:

- Few people are – or feel they are - properly equipped to make these critical life decisions. This is true of people of all ages, incomes and backgrounds;
- As a result they make poor decisions - or they make no decision at all. For example, as the FSA's baseline survey found last year, 81% of people believe that the state retirement pension will not provide them with the income they want in retirement. But 37% of those have not taken steps to remedy this by making additional provision. The Government estimates that around seven million people are under-saving for their retirement.
- This combination of poor capability and poor decision-making or inaction has three main effects. First, large numbers of individuals are failing to make their money work effectively for them. Secondly, the financial services industry is failing to

reach and retain a large pool of potential customers. And third, to cite the FSA baseline survey again: unless action is taken, the UK population as a whole will store up problems for the future. Over recent years both short-term and long-term savings have been decreasing, and debt levels have been increasing. Better access to simple, trusted, impartial advice has to be part of the solution.

These issues are illustrated particularly vividly by the case of pension provision. Here we see the effect of:

- Rising indebtedness and decreasing propensities to save;
- The British cult of property;
- Increasing longevity;
- The transfer of responsibility from Government and employers to individuals, - exemplified by the proposed introduction from 2012 of auto-enrolment into Personal Accounts.

Personal Accounts make the need for good, impartial advice more urgent. Millions of people will find themselves paying in to a pension scheme for the first time. They will need to answer questions like “should I stay opted in?” or “What fund should I join?”. I suggest

that the current structure of regulated advice, and the services provided by non-regulated sources of information, will not be equipped - in either nature or scale - to deal with this potential demand for financial advice. I do not accept the arguments that possible interactions between personal accounts, and whatever means-testing régime may exist in 10, 20, 30 or even 40 years' time, mean that this is an issue on which generic advice cannot sensibly or safely be given. That is a counsel of despair, and I am not the despairing sort.

So I was genuinely delighted and excited to be offered this task at the beginning of the year. It is a challenging task. We have a lot of ground to cover. These are still early days. We published our call for evidence on 13 March. The closing date for responses was just two weeks ago, on 27 April. We have received over 90 responses - a figure which underlines the importance of and interest in the project. It also represents a lot of reading for my team and me!

I am due to produce my report and recommendations around the end of 2007, with an interim report in the Autumn.

I'd like now to set out how I see work on the Review progressing over the next few months and share some early thoughts about what a national approach – or service – for Generic Financial Advice might look like. We shall, of course, carefully analyse the responses we have received, and continue to consult with stakeholders. I'm aware, from the responses I have seen and the meetings I have already had, of divergent views about the extent to which existing providers in the commercial and voluntary sectors can meet the need – or whether there should be a new organisation to deliver Generic Financial Advice. If a new service, how should it be funded? And what services it should provide? I'll deal with some of those specific issues later on.

But my main conclusions so far, after two months of listening to a wide range of stakeholders are as follows:

- First, I believe the benefits of incorporating access to generic financial advice in the wider financial capability strategy are proven. No one, I think, disputes the fact that general levels of financial capability in the UK are unacceptably low. Some doubt whether a national approach to generic financial advice will have a significant impact. I do not share those doubts.

Some argue that much of the help that is needed is already available. If it is, it has not so far effected the sort of change we need to see. I accept that we need to do more work to quantify the impact of advice, to understand our target market, and test how best to engage with it. Indeed we have recently tendered for independent external cost-benefit analysis to feed into our deliberations. But it is clear that when people can be persuaded to engage with financial issues, and to take action on their financial affairs, it can transform their lives. For example, in the “AXA Avenue” study, ten households which received financial advice were some £50,000 better off at the end of a year. On average their personal debt reduced by 22.6%; their savings increased by 41.16%; and their net wealth increased by 4.75%. Conversely, the control group who were left to their own devices saw a three per cent reduction in their net wealth.

- Second, I believe that designing a national approach to meet these needs is possible. I know that there are issues to be resolved – not least with the terminology itself. The phrase “Generic Financial Advice” is not one that rolls easily from the tongue, or is calculated to produce excitement amongst

potential customers. I doubt very much whether those words, in that order, will figure prominently in marketing campaigns for any new service. We are using them because they are a recognized shorthand - amongst those familiar with this subject - to describe the sort of personalized, but non-regulated, advice that people need, but cannot easily get. It is a useful shorthand - because it reminds us that we are talking about help that stops short of regulated advice recommending specific products. Managing that boundary with Regulated Advice is something my terms of reference specifically direct me to consider - and it is an issue on which I welcome views. It is an important issue for those in the business of selling financial products. And terminology is important, to help us conceptualise the sort of service we want to deliver. But theological debates of this nature are profoundly unimportant to people who need advice – guidance – information – or to put it plainly, help – to make sound financial decisions. This is a “behind the scenes” issue that we need to get right. But is not something over which I intend to agonise as a first order question.

- Finally, I am in no doubt from my discussions across Government and across parties that there is political will behind this agenda; and that it is an agenda that has cross-party support. The remit I have been given is to advise on “how” a national approach to generic financial advice can be put in place, not “whether” it should be put in place. What I shall be looking to do over next few months is build consensus for a workable design that can command the support of all stakeholder interests. And I am looking to the representatives of those interests to help me do it.

Having issued that challenge, it is only fair to share with you my own thinking on what a national approach might look like. We are of course studying a lot of different models for delivering information services - and other types of service - to the public. It seems to me that you can think in terms of models at two ends of a spectrum, with a hybrid somewhere between the two:

- At one end of the spectrum you could have a centralised, monolithic, approach, with a new organisation doing all the aspects of Generic Financial Advice itself. And by all aspects I mean including web-based, telephone-based and

face-to-face channels. That model would, I suspect, find itself positioned as part of – or on the borders with – Government.

- At the opposite end of the spectrum you could have a fully decentralised and diversified model, based on a small central body with an advisory, strategic, and accreditation function - but with the actual advice services delivered by other, external providers.
- And there are of course a range of points in between, which would be based round a new organisation providing strategic direction and delivering some aspects of the service, but also working in partnership with other organisations in government, industry, and the third sector.

So I want to spark your imagination about what roles your insurance companies, banks, advisory businesses and so on can play in these types of models. This could be either using your existing customer engagement and routes to market, - or working together in new partnerships. This is the debate for the next phase. As a CEO, I think the industry will be judged by the level of creative engagement we exhibit with this design and costing process. As I mentioned

earlier on, I am planning an interim report in the Autumn. This will set out a range of approaches and consult further on the detail and narrowing down options.

However I am personally convinced that whatever the ultimate model is, it will need to learn from, build on, and work with, existing provision in all sectors. This will include protocols for hand-offs to other services, and, where appropriate, to Regulated Advice.

I also believe that it will not be enough to adopt the approach of “if we build it they will come”. Our work will need to pay as much attention to the demand side as to the supply. We know from the FSA baseline survey and other studies that people like the things that money can buy, but they are less interested in the skills and products that deal with money itself. Generic Financial Advice is a service that people need, but may not realise that they want. That is a challenge, but it is not a reason to give up and go home. One of the major workstreams for the Review is how to engage with consumers, and persuade them to take action on their financial affairs. A Generic Financial Advice Service will need to be skilled and imaginative in branding and marketing. That marketing effort will need to be sustained over many years. And it will need to join up with the wider elements of the financial capability strategy –

which will have a crucial part to play in raising the profile of the issue.

I turn now to the issue of funding. We are working on the assumption that the cost of a generic financial advice service – however it is delivered – will be shared between Government and external partners.

I am aware this is a concern for the financial services industry, and I can understand the reasons for it. But we need to focus on benefits as well as costs. The argument for an Industry contribution to the cost of a service is not based on pure altruism. There is a good business case for ensuring that people are empowered to make good financial decisions. Confident and well-informed customers may be more demanding customers. But they are also likely to be more reliable creditors and more persistent savers.

I have no preconceived ideas at this stage about how the mechanism for sharing costs ought to work, and who should be asked to contribute. That is one of the areas we have been asked to examine, and make recommendations on. But of course the scale of the costs, and the way they are spread, will to a significant extent

depend on the eventual design of the service. For example, what sort of new organisation is needed, - the extent to which the service would use or subsume existing provision, - the scale of the marketing challenge - and so on.

On the likely quantum of costs, Resolution has produced a range of options, which suggested that around £50m a year might be enough to make a strong start. That seems a useful basis from which to kick off the debate. In the long run, costs will depend on the nature of the service, and on the level of demand. And also on changes in the financial services landscape, and in underlying levels of financial capability.

In conclusion, three or more months into this project I remain optimistic and enthused, - though very mindful of the issues that are still to be resolved and the work I have to do. I will leave you with three thoughts:

- First, to reiterate that my remit is “how not whether”. I believe that the case for a national approach to generic financial advice is made and that it will happen;

- Second, since it will happen, the industry as a whole - life assurers, general insurers, bancassurers, brandassurers - has two choices. Either to engage with the design and build; to consider how to participate in delivery; to shape the cost and budget, and to take reputational as well as economic benefit from it. Or to disengage. To have it built and directed without our input; to suffer another reputational hit; and in all likelihood to make a smaller business gain in future.
- Finally, a world with financially competent and confident consumers, who have access to advice that empowers them to make effective financial decisions, is a world that is better for them, and an environment that can be better for the Industry. I hope, and believe, that we can all work together to build the structures that will deliver the “advice” element of that equation.