Thoresen Review of Generic Financial Advice:

Interim Report

October 2007

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Foreword

Dear Kitty,

I am delighted to enclose my Review's interim report on how to deliver a national approach which will give the people of the UK access to generic financial advice (GFA).

I believe GFA, delivered nationally, is an essential element in the overall strategy to improve the UK's levels of financial capability, and that such improvement will be of great benefit to the people of the UK, its Government and the financial services industry.

People's lives are changing. We are living longer, getting married later, having children later and changing jobs more often. For most, living standards are rising, but managing their way through modern life isn't getting any easier. Worries about money are a major source of stress, ill health and absence from work. As a nation, I think we need to look for ways to equip people to manage their money – and therefore their lives – confidently, competently and realistically. We need to help them to make good decisions and to avoid crises.

We need to help people with the basics. Understanding what an APR is, what a pension is, and what the risks of not having contents insurance might be.

People need help to plan ahead so that they can deal with life's predictable and unexpected events. They need to have the confidence and knowledge to begin to execute that plan.

By assisting people to achieve these goals, a GFA service will make a significant contribution to improving the quality of people's lives.

This interim report sets out the work and analysis my Review has undertaken to date, as well as an overview of the work we shall be doing before I make my final recommendations in the New Year.

The report is not in the main about making recommendations or expressing firm views. It's largely the story of how we've turned the analysis we've done and the arguments we've heard into pilots for testing GFA in the real world. Much depends on what those pilots show, but what I can say now, based on the work we've done, is that we believe we can deliver a high-level blueprint of a service which can be built, is affordable and is effective.

What is more, we believe that if we maintain the momentum created by existing service providers, current financial capability work and this Review, the first phases of our solution could be in place within a relatively short time frame.

I would like to thank all those who have contributed to getting the Review this far: the 100 or so organisations who responded to my Call for Evidence, all who participated in the numerous workshops and meetings we have run, and who hosted the site visits we have made to organisations involved in delivering advisory, guidance and counselling services in a broad range of sectors. The level of engagement and the generosity of people in terms of their time has been remarkable.

There is a wealth of work already being done from which we can learn, which is valued, and which must continue. It is important to record the breadth and quality of existing advisory services in the UK. I have been impressed by the commitment of advisers (who are often volunteers), the enthusiastic leadership of advice organisations and the commitment – which spans public, commercial and third sectors – to doing an important job well and making a real difference to people's lives. The challenge for the Review is to acknowledge this valuable collective endeavour, and to build on it. Where we see gaps or deficits in current provision, this is in no way a criticism of providers. They work within constraints, and the Review has the luxury of being able to step outside those constraints and take a fresh view of the situation to suggest how things could be improved.

That fresh view has shown, however, that there are gaps, which a national generic advice service would be able to address. The key gaps appeared in the areas of forward planning, taking action, budgeting and preventing individuals who manage to resolve a crisis from becoming caught up in it again.

I've carried out the review so far on the basis that funding will be shared between government and the financial services industry, and this report explains why I believe that the costs of building and running the service make it feasible, and that the costs are likely to be outweighed by the benefits.

Here we think the evidence is fairly clear. Where the evidence and opinion give less of a direction is around who the main users of the service would be, about delivery channels, and about the best way to enable the UK public to engage with what the service can offer. These are things that we are currently testing, to help provide answers to the questions posed.

But even without final conclusions on these questions, I have developed a clear set of principles for the service.

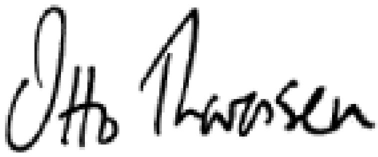
It needs to be:

- "on my side": impartial from government and the industry;
- supportive and informative: not criticising, but certainly persuasive of the need to act;
- preventative: helping people take charge of their affairs before serious problems develop;
- available to all;
- delivered in an environment which is clearly not linked to a product sale;
- able to give guidance, to empower individuals in making decisions, but stops short of recommending a product with a specific provider.

I believe the Review is undertaking important work and progressing well. I'd like to thank the small but dedicated team who have delivered that progress.

I would also like to thank my Reference Group for their support so far. In many different ways they have provided invaluable guidance to support my work.

I hope readers will enjoy the interim report. Although this is not a formal consultation, I want them to contact me with views on where we've got it wrong, or where we are getting it right. We've posed a number of questions at key points in the report and I look forward to the debate which I'm sure this report will generate.



Otto Thoresen

Executive summary

AIM OF THE INTERIM REPORT

E.1 This interim report outlines the evidence, research and analysis, which the Review has undertaken to date. It sets out our current thinking and direction, and provides a roadmap for the work that the Review plans to undertake before making final recommendations in early 2008. There is still the opportunity for stakeholders to help to shape and direct the work that we are undertaking, and we would encourage that debate.

E.2 Although this report does not make any specific recommendations, it certainly signals the Review's intentions and direction. Some have rightly described this process as a "funnelling exercise". The Review has used the evidence and research undertaken to create a range of options and models that will be examined further in the development of the final recommendations. This will create a high-level blueprint for action.

THE REVIEW'S APPROACH

E.3 The Terms of Reference set the parameters for our work. The remit was as follows:

Thoresen Review: 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. To include recommendations on:

- the most effective way of serving different groups of consumers, ensuring effective targeting of those most vulnerable to the consequences of poor financial decision-making, including a telephone-based point of contact and the potential for additional face-to-face services;
- protocols for advice, acceptable to industry, the regulator and the third sector;
- accreditation, quality control and the boundary with regulated advice;
- branding, marketing and supporting demand through the development of an appropriate advertising campaign;
- overall costs and assessing long-term benefits;
- options for funding that reflect the benefits to all stakeholders of increasing financial capability over the long-term; and
- institutional arrangements and governance.

Source: *Financial Capability: the Government's long-term approach*, HM Treasury, January 2007.

E.4 The primary focus of the Review is therefore to examine how a national approach could be delivered. To achieve this the Review has divided its work into five work-streams that reflect the fact this is about how, and not if, a national approach should be designed, and around which this report is structured. They are:

1. the method and design of delivery, including how the service works with and utilises existing provision;
2. identifying the potential users of a generic financial advice (GFA) service, including those most vulnerable to the consequences of poor financial decision-making;
3. establishing how the service could engage successfully with individuals to encourage them to engage better with their personal finances;
4. governance; and
5. the cost and benefits of delivery.

E.5 The Review will provide recommendations on the foundations, often described as the "nuts and bolts", of the service. It is certainly regarded as "phase one" research.

Building the evidence base

E.6 GFA is not a new concept. There is already a body of evidence and opinion on what it encompasses, and how it should be delivered. That is why a Call for Evidence was issued on 13 March 2007. In addition, the Review has:

- met extensively with stakeholders to obtain further information and guidance;
- seen at first hand GFA-type services being delivered to consumers;
- held workshops in London and Edinburgh to assist in developing our thinking; and
- reviewed research that is relevant to the provision of GFA from a number of stakeholders including the Government, the Regulator, the financial services industry and the third sector.

E.7 The quality and volume of evidence was substantial. However, on many issues there was no consensus of opinion. For example, some advocate the telephone as the primary delivery channel, with others believing that web-based or face-to-face (F2F) solutions are more effective. As a result, it has been necessary to undertake further research to both build on and analyse current thinking. To date, the Review has:

- undertaken a high-level cost benefit analysis of delivering a national approach and the key drivers of the costs and benefits for different stakeholders;
- run consumer focus groups in England, Wales, Scotland and Northern Ireland as well as more in-depth interviews with those from black and minority ethnic groups in London;
- carried out a detailed assessment of the groups of users who could benefit most from GFA;
- undertaken an analysis of the international arena in order to learn lessons from other nations;

- clarified our understanding of the current boundary of GFA with FSA regulation and the Consumer Credit Act 2006, so as to know what the service could do in theory and in practice.

E.8 Importantly, two live pilots of the national approach have been launched. They are geared to reach approximately 5,000 real consumers from across the UK, including the creation of advice protocols – the actual content the service can give. These will be complete in December 2007 and will provide further evidence for the Review.

E.9 The evidence the Review has completed is available from the Review's website.[1]

E.10 The evidence and research points to the conclusion that **a national approach to GFA is achievable and the potential benefits are clear for all stakeholders – the Government, the financial services industry and, most importantly, the people of the UK**. There are costs, but overall we believe the benefits to the UK and its population of having a national approach will be substantial and long-lasting.

KEY PRINCIPLES AND THEMES

E.11 Although the Review is not yet in a position to make final recommendations on design, scope and delivery it has become clear that there are key principles around which the national approach should be designed. In particular, the service needs to be impartial from the Government and the industry, and "on the user's side". It should not exist to serve any specific interests of the Government or the financial services industry.

E.12 Second, the service needs to support individuals – it is not there to criticise a lack of knowledge or understanding, but rather to provide users with the guidance, information and tools to enable people to make positive changes.

E.13 Third, the service should not be designed for those in crisis. It should provide a preventative service to help people avoid getting into financial difficulty. However, the service should be able to identify those in crisis and make sure that they are properly directed towards the organisation(s) best able to assist them.

E.14 Fourth, the service should be available for all; nobody should be turned away. However, there should be effective targeting of those most vulnerable to the consequences of poor financial decision-making. The Review's analysis suggests that at some point in their lives everyone will face a trigger or issue where GFA will be beneficial and necessary for them – from the birth of a child to the death of a partner.

E.15 It is also clear that the service cannot and should not recommend specific products from particular providers, as this would confuse the service with sales in the minds of users. To do so would not only put the service within the Financial Services Authority's (FSA) regulated boundary, but people have said that they want a service that does not sell to them – irrespective of who the provider is. The aim of the service is to equip individuals with the knowledge and confidence to assess the advantages and disadvantages of different options. However, working with and building on the work of the financial services industry, and providing signposts to its services, will be key to delivering outcomes.

[1] http://www.hm-treasury.gov.uk/independent_reviews/thoresen_review/thoresenreview_index.cfm

E.16 There are two additional themes that have shaped the direction of the Review. First, the phrase "generic financial advice" is not one that is easily understood. It has been a useful phrase to date in helping stakeholders to understand what we are trying to achieve. **However, the service can be more accurately described as providing information and guidance to people, equipping them with the tools to make more-informed decisions**. In the final report we aim to recommend or suggest the type of term or title that could be used for the service, to fully reflect what the service is attempting to do and what it can achieve.

E.17 Second, the Review believes that its vision for a national approach could be delivered outside the boundary of FSA regulation and the Consumer Credit Act 2006. The Review's definition for the scope of GFA does not require "special treatment" in regulation. If the evidence from the two pilots changes this view, we will make recommendations on any alteration to the regulatory landscape that may be required.

E.18 These principles and themes have underpinned the work of the Review, and they will flow through to the high-level blueprint for delivering a national service.

BUILDING THE NATIONAL APPROACH

The existing landscape

E.19 Before getting into the analysis, it is important to record the breadth and quality of existing advice services within the UK. The Review is aware of the excellent work and commitment that exists, which makes a real difference to the lives of many people.

E.20 The Review has analysed the scope of existing provision in five core areas: debt, tax and benefits, budgeting, forward planning and taking action. The Review's analysis of the existing provision of financial advice has so far concluded that first-rate GFA-type information is being delivered as part of debt management advice, primarily to those in crisis, and in relation to pensions and tax through the Pensions Advisory Service (TPAS) and TaxAid respectively. In addition, we recognise that the commercial sector is developing information and guidance on many financial products and issues.

E.21 But, the Review has identified key gaps in the provision of GFA. First, in terms of forward planning, limited preventative advice is on offer. For example, there appears to be limited connectivity to prevent those who resolve a crisis from returning to it again. Advice that focuses on forward planning and taking action is primarily delivered by the commercial sector, which means that effort is inevitably directed towards commercially attractive segments of the population, in a sales environment.

E.22 From the analysis, the Review believes that a national system of GFA is necessary; a service offering personalised, unregulated advice, in advance of a crisis, is not being delivered on a national scale.

E.23 At the same time, people's experience of, and trust in, existing providers of GFA-type services means that they have to be utilised to ensure the success of the national approach. The Review can learn from the success of existing provision in terms of marketing and design, to ensure that a national GFA service fills the gaps identified above and meets the needs of people who are most likely to benefit from GFA.

Who needs a GFA service and how can they be engaged?

E.24 Our intention is that the GFA service will be available to all, but, through marketing and design, will engage particularly with those who could benefit most from GFA, delivering a service that is aligned to their needs, in a way most relevant to them.

E.25 The Review's analysis builds up a spectrum of financial vulnerability across the UK's adult population, primarily using the FSA's financial capability baseline survey, to understand the groups who are most likely to benefit from GFA. From the analysis, two groups emerge: approximately 7.5 million people who could benefit the most from a GFA service, recognising that around half of this group could be referred to sources of crisis support, and approximately 11.7 million people who have significant GFA needs. The rest of the population could still benefit from GFA, particularly at key life stages, but the service should be designed, branded and located to attract the 19 million who will benefit most, particularly the 7.5 million most vulnerable. Demand management through an effective engagement strategy will be key.

Engaging people

E.26 Recommending how to engage potential users of the service is one of the most challenging, but crucial, areas of the Review's remit. Unless individuals can be motivated to engage with the service it will not achieve its aims and, given the potential diversity of users, the engagement strategy needs to be sophisticated. The strategy will have to make people understand that they have a financial need to address, and then make them aware that the GFA service could satisfy that need.

E.27 Although the Review is not yet in a position to outline the marketing strategies required, our analysis suggests that a mix of three key approaches could prove most effective. First, word-of-mouth endorsement will be key – it will help embed trust for the service into the public consciousness. Second, the Review believes that any engagement strategy will need to work with trusted intermediaries from across the community to be successful. These might include the workplace, Jobcentres, Children's Centres, Connexions services, educational establishments, GP surgeries, voluntary and community organisations. All are potential referral points from which consumers can engage with the GFA service. Third, the Review is aware that large marketing campaigns can, and have, worked, but recognises that more targeted strategies can also be highly successful.

E.28 It has already become clear that the service needs to link in with a "trigger for demand". These triggers can be consumer-led, examples being marriage, the birth of a child, the death of a partner, or divorce. Market-driven examples would include the implementation of auto-enrolment and Personal Accounts in 2012, changes in mortgage rates or a financial disruption. If the trust and confidence in the GFA service grows so that it becomes the first contact point for answering queries from any significant trigger, it will be essential for the service to think about how to build in capacity for such peaks in demand. Indeed, the Review recognises that managing ongoing and unexpected demand will be crucial to ensure the provision of a quality service, as well as an important mechanism for managing cost and capacity.

E.29 The advancement of, for example, Internet capabilities (including online social networks), digital television and mobile communications will provide a wide range of potential new delivery mechanisms for GFA. Any GFA service would need to embrace these developments, not only to have a consumer engagement strategy that meets the needs of the users, but also to benefit from potential efficiencies in delivery.

Delivering the service that people need

Piloting a national approach

E.30 There is no such thing as a "typical user": individuals will want to access and use the service in different ways. To understand what consumers want, we are currently piloting approaches that could be at the heart of a national service. The two pilots are geared to reach 5,000 people in a twelve-week period, including those groups which we believe should be a priority target of the GFA service. Consumer Direct, in conjunction with Citizens Advice, Cumbria County Council and Agilisys, are operating a pilot scheme in the North West of England. A4e is operating a pilot scheme in London, South Yorkshire and Staffordshire.

E.31 In the limited period available we will not be able to test everything, but we should be able to test elements of a GFA service. The four variables to be tested are:

- ways of delivering information and guidance, in terms of the channel (telephone, Internet and F2F) and the interaction between them, as well as the effectiveness of each in meeting the Review's aims;
- the style and tone for delivering the information and guidance;
- assessing the relative effectiveness of different types of adviser; and
- ways of engaging the potential users of the service, including those most vulnerable to the consequences of poor financial decision-making.

The scope of GFA

E.32 **The Review's starting point is that the current regulatory boundary should not act as an inhibitor to delivering the vision for a national approach.**[2] The pilots will help to test whether or not this is the case, and to assist in making recommendations on what, if any, changes may be required.

E.33 The Review's decision-making process has been based on a consideration of many issues, but, primarily, the necessity of working within the principles of the service and ensuring that any future service can deliver what consumers want and need. The service needs to feel personal and actionable, yet it needs to function outside the current regulatory boundary and avoid developing casework on individual users. As such, the Review's working definition is as follows:

GFA will provide information and guidance to people on a range of financial topics, dealing with each topic to a consistent level of depth. It will translate financial jargon and equip people with questions to ask of providers.

GFA will provide guidance on a suggested course of action. For example, it will suggest to a new parent that "most people in your situation consider life cover". It will then provide information on the pros and cons of different types of protection and the consequences of not holding insurance then guide users towards appropriate comparison tables and/or signpost them to the regulated advice sector.

GFA will signpost individuals to other services in the financial services sector, government or the third sector depending on the needs of the individual.

GFA will not make recommendations to buy, surrender or change a specific product from a specific provider.

GFA will not provide in-depth information or guidance on complex debt, tax or benefit cases. It will provide budgeting guidance and signpost individuals to specialist agencies.

[2] The Review recognises that the service will need to have controls in place, but that it could operate outside the boundaries of FSA regulation and the Consumer Credit Act 2006.

E.34 Even within this boundary, the Review recognises that there is the potential for liability. As with third sector organisations such as Citizens Advice and National Debtline, the service cannot be immune from compensation claims or complaints, and, as such, would also require indemnity insurance, as would any organisation of this type. Mitigating the risk will be crucial, and important lessons on achieving this can be learned from existing organisations that have delivered an advice service and mitigated liability.

Governance

Service delivery model

E.35 The governance of the service will be key both to achieving the aims of the service, and to establish credibility and confidence for stakeholders and users. At one end of the spectrum is a centralised, "monolithic", approach, with a new organisation undertaking all the aspects of GFA. At the opposite end of the spectrum is a fully "decentralised" and diversified model, based on a small central body with advisory, strategic and accreditation functions – but with services delivered by other, external providers.

E.36 There is a range of points in between where, for example, a new organisation might provide strategic direction and deliver some aspects of the service, but also work in partnership with other organisations in government, industry and the third sector. In short, a hybrid approach.

E.37 At this stage, the Review believes that the hybrid model described above is likely to be the best approach. Working with other organisations to deliver GFA is critical to successfully reaching different groups of people and delivering a national approach that fills the gaps identified in the current landscape. This will not necessarily be the simplest option: in some respects it poses greater challenges to the organisation and individuals that will ultimately have to build the service. The central body would have to manage a complex network of partnerships and external relationships, some contractual, some more informal. This will take considerable skill. However, the Review believes that the introduction of some kind of strategic oversight and coordination on the current web of overlapping services could deliver considerable benefits. The hybrid approach offers a solution that could, over time, result in greater coherence of provision, reduce duplication and ensure the most effective use of resources.

E.38 The organisations delivering a GFA service could take a number of legal forms. The Review is not yet in a position to state what kind of organisation we would recommend to take forward its recommendations. However, given the principles and aims of the service, the Review believes that it would have to be either a new public body, or an existing organisation – not necessarily a public body – whose current mission and profile are a close fit with the desired "look and feel" of a GFA service and whose operations could be adapted or scaled up to meet the demands of a national GFA service. Recommendations on this matter will be made in the final report.

Costs and funding

E.39 The Review is aware of the need to ensure that the service is built to last and is realistic in terms of what it can deliver. It will need to be affordable and have funding arrangements that are both sustainable and realistic. A key premise of the Review has been that the cost of the national approach would need to be shared between industry and government.

E.40 The evidence gathered to date shows that, beyond altruism, there are benefits to the financial services industry of having consumers who are more capable, confident and more willing to transact in the market-place. Such individuals are likely to be more persistent savers and more reliable borrowers. Over time, the Government could also benefit from reduced spending on income-related benefits. Importantly, the evidence also indicates that direct benefits to individuals of a GFA service exceed the present value of direct costs by a factor of 3.5 to 1.

E.41 The Review therefore believes that the funding should be shared between government and industry, taking the definition of "the industry" in its broadest sense. The Review is keen to adopt a partnership-based approach, but believes that a compulsory levy would provide the most secure and equitable funding mechanism for the industry contribution. This could be a new levy, or perhaps raised through the existing FSA levy, and we invite views on these options.

E.42 In discussions on the level of funding needed, the figure of £50 million a year has been mentioned frequently by the Review and others. This figure, which represents the mid-point on a range of costs developed in work by the Resolution Foundation has been useful as a starting point for debate. However, it is important to highlight that the Review has not – and indeed cannot – present a definitive view at this stage of the actual funding requirement. The cost of the service will depend on the depth and scope of the service provided, the mix of channels used and the volume of activity. A service delivering a large number of F2F interventions would clearly be more costly than one serving the same number of people but using mostly web-based or telephone services.

E.43 Table E.1 below contains some illustrative cost ranges for a GFA service on the hybrid model. The unit and fixed costs used to generate the table are broadly similar to those used by the Resolution Foundation and in the Review's initial, high-level, cost benefit analysis (CBA). However, the approach differs from the CBA and Resolution Foundation costings in some respects:

- The costings in the CBA assumed either 2 million or 3.5 million users, equating to 15 and 25 per cent of an estimated "target market" of 15 million people. We have costed alternative assumptions of 3 and 5 million users, representing just over 15 and 25 per cent of the of two groups, totalling just over 19.2 million people, who would most benefit from GFA.
- The range of channel mixes is purely illustrative and is intended to demonstrate the possible impacts of delivery models placing a greater or lesser emphasis on Internet-based and F2F services. Further work is needed to assess the likely effectiveness in practice of any particular channel mix.

Table E.1: Range of annual costs for GFA service with a range of channel mixes and assuming either 3 million or 5 million customer contacts a year

Contacts (million)	Channel mix (per cent) Internet	Phone	F2F	Cost (£ million)
3	40	35	25	54
5	40	35	25	81
3	50	30	20	46
5	50	30	20	69
3	60	25	15	39
5	60	25	15	56
3	30	50	20	52
5	30	50	20	78

E.44 The table above suggests that the overall cost of a GFA service could be between £39 million and £81 million a year. These are "steady state" costs and do not include initial set-up costs. The Review does not consider these in detail, and will return to this in the final report.

EXTERNAL CONSIDERATIONS

E.45 Various policy initiatives will impose wider changes on the market-place, and wherever possible the Review's recommendations will attempt to address these concerns. It will be important for the Review and other stakeholders to articulate how these initiatives work together to provide solutions for the people of the UK. The following issues are of particular importance.

The FSA National Strategy for Financial Capability

E.46 The Review is very much aware of the valuable and successful work already being undertaken. The Review has worked closely with the FSA and recognises the complementary nature of its work. Indeed, GFA was a work-stream of the strategy until this Review was commissioned. The FSA is leading a programme of financial capability initiatives that will significantly expand the availability and delivery of GFA-type provision, and assist individuals in acquiring the skills and knowledge to encourage them to engage actively with their personal finances. Over time, this type of activity could stimulate demand for the GFA service.

The Retail Distribution Review

E.47 The FSA, through its Retail Distribution Review (RDR), aims to raise the quality and expand the reach of FSA-regulated financial advice. The Review has worked closely with the RDR. We do not believe that the RDR will impact on the core principles of the national approach, but it will be very important for this Review and the RDR to articulate how the services resulting from the two initiatives work together in practice to make them as joined up as possible for the user, avoiding duplication and additional costs. Crucially, the key for the national approach will be the ability to explain the different FSA-regulated services to consumers and the ways of accessing them. The Thoresen Review will, of course, continue to work closely with the FSA on this matter.

The Government and Pensions Reform

E.48 The work of this Review will feed into the Government's long-term approach to financial capability, and, in particular, into how existing government services refer into and out of the GFA service. This will require the service to work proactively with many parts of government. The Government and the Review have liaised closely on this issue, and we both agree that a joined-up approach will be crucial.

E.49 The Review is aware of the principles set out by Sir David Varney in *Service Transformation: A better service for citizens and businesses, a better deal for the taxpayer.*[3] The Review agrees that a GFA service must be responsive to the users' needs, and recognises that the service needs to adapt to both technological developments and changes in consumer behaviour. We will continue our dialogue with the Government on this issue as appropriate.

E.50 Of particular relevance to the Review is the planned introduction in 2012 of auto-enrolment for most employees into an occupational pension scheme, which could be a Personal Account. Auto-enrolment could be a significant trigger of demand for advice on retirement planning. For that reason the Terms of Reference specify that the Review should: "[take] account of future developments in financial services markets and, in particular, personal accounts".

E.51 The 2012 reforms, and those changes to state pensions which are set to precede them, are a clear "market-led" demand trigger for GFA. The Department for Work and Pensions (DWP) and the Personal Accounts Delivery Authority (PADA) are considering how best to provide information about the wider pension reform agenda.

E.52 The Review would not expect questions prompted by auto-enrolment in general, or Personal Accounts in particular, to raise fundamentally different issues to those which could already arise in the context of retirement planning – for example, in assisting an individual trying to decide whether to join his or her employer's pension scheme. The Review does not believe that it would make sense to try to separate out a "Personal Account" element of any customer engagement, which touches on saving for retirement. Indeed, it would not meet the impartiality test if GFA advice protocols accorded any special treatment to Personal Accounts. The Review, and any future GFA service, will remain in close contact with DWP and PADA as our work develops.

THE REVIEW'S POSITION AND NEXT STEPS

Interim conclusions

E.53 In summary, the Review believes that creating a national GFA service is feasible. The benefits of creating the vision we have outlined outweigh the cost of provision. The benefits will flow to the Government, the third sector, the financial services industry and, most importantly, the individual.

E.54 The analysis undertaken to date highlights the gaps in the existing provision, and therefore this should be the focus of the service's function. It will be extremely important for a service to both work with and build on existing services. It is because of this that the Review believes in a partnership approach, which we have termed a "hybrid approach" to delivery.

[3] *Service Transformation: A better service for citizens and businesses, a better deal for the taxpayer*, Sir David Varney, December 2006 http://www.hm-treasury.gov.uk/media/4/F/pbr06_varney_review.pdf

E.55 The Review believes that a multi-channel approach (F2F, telephone and web) will be important in reaching people. In addition, it is likely that mass and more targeted marketing, working with trusted intermediaries, will be crucial in reaching those who most need the service. The engagement strategy will have to raise awareness, act as a call to action and encourage the use of the service. By doing so, the service can be targeted towards to those who could benefit from it, as well as helping to manage demand for the service.

E.56 However, at this stage the Review cannot set out definitively what the right channel "mix" should be. That is why a GFA service is currently being piloted, which will aid in understanding more about who the users of the service might be, and what channels they use. The piloting will help to provide the evidence base for understanding the real "nuts and bolts" of what a national GFA service might deliver, how it might deliver and, thus, the cost of delivery. Through a twelve-week pilot the Review cannot answer every question concerning the creation of a GFA service, but we can test hypotheses and draw indicative conclusions. However, after the Review has made its recommendations in early 2008, we expect further piloting and testing to be needed. The final report will outline the Review's recommendations on what the next steps should be.

Next steps

E.57 Building on the thinking and analysis outlined in this report, the Review's next steps will be to test and pilot a range of hypotheses and issues. In terms of delivery, it will be testing the effectiveness of different channels in imparting GFA by evaluating the output of the pilots. The Review will also look at accreditation and/or quality control of the information, guidance and training given. With respect to engagement it will aim to identify which strategies will most fully engage users, with specific focus on those who are regarded as key clusters of the population. The Review will develop its thinking on the "hybrid" model – in particular the role of the commercial sector. Importantly, the Review will also continue to analyse the different models for both the governance and funding of the national approach. It will also be necessary to map more precisely where current provision exists across the UK, and, thus, where resources may need to be focused. This will provide a firm foundation for the Review to make its final recommendations for a high-level blueprint.

E.58 In tandem with this report the Review has also produced a short consumer guide to the work we have undertaken to date to help consumers understand what we are trying to do, and why. Feedback from this will be incorporated into the final report.

E.59 The Review is also keen to engage and obtain feedback and input on the development of our analysis as covered in this report. The Review is keen to do so over the coming months, and looks forward to continuing to engage with the many stakeholders who have an interest in this project.

E.60 The Review's objective is to create a high-level blueprint that can be taken forward and used to deliver the national approach to GFA. It should provide the basis for a GFA service that can be put into operation in the next few years. It cannot provide the answer to every detailed question, but it will establish a clear road map for the future and the steps that need to be taken to turn the blueprint into reality.

1 Analysing the existing landscape

Summary

This chapter:

- analyses the nature of the gaps in existing provision of generic financial advice (GFA) whether in scale, access, range or the nature of the service; and
- discusses the implications of these gaps for the design of a national service for GFA.

This chapter records the breadth and quality of existing advice services within the UK. The Review is aware of the excellent work and commitment that exists, which makes a real difference to the lives of many people.

The Review has analysed the scope of existing provision in five core areas: debt, tax and benefits, budgeting, forward planning and taking action. The Review's analysis of the existing provision of financial advice has so far concluded that first-rate GFA-type information is being delivered as part of debt management advice and by specialist organisations operating in the fields of pensions and tax. In addition we recognise that the commercial sector is developing information and guidance on many financial products and issues.

But, the Review has identified key gaps in the provision of GFA. First, in terms of forward planning limited preventative advice is on offer. For example, there appears to be limited connectivity to prevent those who resolve a crisis from returning to it again. Advice that focuses on forward planning and taking action is primarily delivered by the commercial sector, which means that effort is inevitably directed towards commercially attractive segments of the population, in a sales environment.

From the analysis the Review believes that a national system of GFA is necessary; a service offering holistic personalised, unregulated advice in advance of a crisis is not being delivered on a national scale.

At the same time, people's experience of, and trust in, existing providers of GFA-type services means that they have to be utilised to ensure the success of the national approach. The Review can learn from the success of existing provision in terms of marketing and design, to ensure that a national GFA service fills the gaps identified above and meets the needs of people who are most likely to benefit from GFA.

INTRODUCTION

1.1 Before designing a national approach to generic financial advice (GFA), the Review needed to form a view on the nature of any gap in existing provision, whether it is in availability on a national scale, ability of individuals to access it, range of issues covered or the personalised, unregulated and preventative character of the service.

1.2 To carry out the analysis, the Review assessed the current provision of financial advice by topic:

1. debt;
2. tax and benefits;
3. budgeting;[1]
4. forward planning;
5. taking action – seeking an answer to a question or problem, or selecting a financial product.

1.3 An examination of the current provision of financial advice has enabled the Review to draw out a number of lessons about the nature and structure of any national GFA service and the delivery systems that are likely to succeed. The Review recognises this analysis is a high level overview based on: responses to the Call for Evidence, consumer focus groups[2] and visits to financial advice provider sites. The analysis is not exhaustive, however it showcases a sample of current GFA provision. The Review's duty is to build upon current provision based on a fresh and candid look at how even more might be achieved.

ANALYSIS OF EXISTING PROVISION BY SUBJECT

Debt

1.4 "Debt advice" is used to describe problem-solving advice relating to debts that individuals are unable to afford to repay. Consumers often seek debt advice at the point of crisis, although not always. The key prompts for action on debt are an individual or household running out of cash, creditors suggesting guidance is sought or the commencement of debt recovery proceedings.

1.5 There is a wide variety of organisations at a regional and national level that deliver invaluable debt advice; National Debtline (NDL) suggests the total number is in excess of 2,750.[3] These organisations vary in terms of service type offered; for example, some offer casework support to clients, while others facilitate self-help.

1.6 Debt advice is available via multiple delivery channels, including web, telephone and face-to-face (F2F). For example, the Consumer Credit Counselling Service's (CCCS) helpline operates a form of "triage" that filters people according to their need and offers general advice or self-help packs, or recommends speaking directly with a counsellor. The triage assessment lasts 5-10 minutes and the average call length with a counsellor is 45-75 minutes. Citizens Advice Bureaux (CAB) adopt a similar triage model when delivering F2F advice, whereas callers to NDL are answered directly by a counsellor.

1.7 Consumers can be referred between agencies according to their needs; for example, NDL counsellors occasionally refer to CAB when F2F advice is necessary to help a client progress. Such situations occur when individuals require more intensive casework support and find describing correspondence over the telephone difficult. These referral mechanisms are not usually formalised.

[1] Budgeting covers not only helping people make ends meet, but also offering people tips and tools on how to improve the long-term pattern of income and outgoings, to reduce the stress of trying to live within one's means.

[2] Annex 3 – *Summary of responses from consumer focus groups*, The Value Engineers, October 2007, www.hm-treasury.gov.uk/independent_reviews/thoresen_review/thoresenreview_index.cfm

[3] *Guide to services*, National Debtline, www.nationaldebtline.co.uk/pdf/guide_to_services.pdf

National Debtline

NDL provides free, confidential and independent advice on debt issues using the telephone, a website and written information. The advisers do not use a script, enabling them to deal with the range of related issues that a client may have. There is no process for filtering calls and advisers spend on average 25 minutes talking with each client.

Capacity: 150,000 calls expected in 2007	**Cost per call:** £24
Customer source: 30 per cent web, 20 per cent directory enquiries, 50 per cent referrals	**Customer interactions:** Each client calls on average 1.5 times
Advisers: Non financial background with key skills including empathy	**Training:** 40 weeks, costing £15,000 per employee
Coverage: National	**Advisers:** 88 (2007) increasing to 124 (2009)

1.8 Budgeting advice is integral to resolving debt problems. The Review recognises that an element of GFA covering budgeting is delivered as part of debt advice. It is difficult to disentangle GFA from "crisis" advice and therefore to understand how those who resolve a crisis are prevented from returning to it again.

Commercial provision of debt advice

1.9 Commercial organisations, such as banks, offer an element of debt advice to their customers, but counselling could incur a charge. Here, a budgeting plan is usually created and banks might offer reduced repayment plans or consolidate debt. However, banks only deliver advice on their own debts. The commercial sector therefore frequently refers those with debt from multiple sources to independent debt advice providers such as CCCS. In the year to September 2007 CCCS received approximately 88,000 referrals from lenders, which represents 43% of the total referrals they received.

Co-operative Financial Services

Co-operative Financial Services (CFS) piloted a programme to proactively identify and contact consumers heading towards financial difficulty before their situation reached critical. This is now being tested further on a full operational scale. Initial indications suggest customers are pleased to be contacted; evaluating the effectiveness of proactive advice will be possible over more time.

1.10 Larger employers often offer confidential counselling to staff on a broad spectrum of problems. Counsellors are commonly in a position to deliver crisis-related financial advice on debt or to refer to a source that can.

1.11 Virtually all providers of debt advice adopt a personalised approach tailored to complex needs. An initial challenge is often to calm distraught consumers, which appears to be best achieved in a non-scripted environment.

1.12 Many of the debt advisers we spoke to believe their impartial status is essential in gaining people's trust. Where individuals are referred from the commercial sector they frequently ask about the independence of the advice they are about to receive. It is clear that commercial entities and individuals benefit from third sector involvement in establishing sustainable repayment plans.

Consumer Credit Counselling Service (CCCS)

CCCS launched an online debt remedy tool in September 2006, and with minimal advertising or promotion 68,000 people had used it by the end of year. The average time it takes a client to complete the financial assessment is 23 minutes, when the system produces a personal report and solution. Only one in six of those using the service has required assistance by telephone.

Annual calls: 293,000 to the helpline with 73,286 going on to speak with a counsellor	**Debt management plans (DMPs):** In 2006 distributed £140 million to creditors and created 35,000 new plans
Funding: Creditors voluntarily donate 11.75 per cent of money recovered via DMPs	**Staff:** 600 – 78 per cent of whom work directly with clients
Advisers: Non financial background with key skills including empathy	**Training:** Initial three-week period followed by working with a mentor
Coverage: National – 11 regional centres	**Annual budget:** £15.45 million

1.13 Consumers seeking assistance in a state of crisis can be motivated to take action, although some need support in coming to terms with their situation and help in taking the first steps to tackle it. Some advice providers are in a position to offer solutions such as debt management plans[4] themselves, others have a clear path of referral. There is, however, a gap in provision of post-debt advice guidance to help individuals avoid sliding back into crisis and to improve their long-term budgeting ability.

1.14 Demand for debt advice corresponds with the economic climate and time of year. Providers can find it challenging to meet demand, especially at the peaks of these cycles. The FSA baseline survey published in spring 2006 suggested 1.5 million people were falling behind with bills and credit commitments. A further 3 million people find it a "constant struggle to keep up with commitments", this group is most at risk from macroeconomic conditions such as rising interest rates.

Interim conclusion

1.15 The Review's analysis of the provision of debt advice suggests:

- a degree of debt advice covers GFA principles, such as drawing up a budget and taking action;
- individuals who seek debt advice are frequently at a point of crisis;
- those in crisis respond best to non-scripted and independent advice;
- it is not clear the extent to which debt advice prevents those who resolve a crisis from returning to it again.

1.16 The extent of successful debt advice provision and elements of GFA which are fundamental to debt management mean the Review should closely examine models which would allow this provision to work alongside, or as part of, GFA. Existing providers successfully use a wide variety of channel strategies, ranging from web to F2F. The evidence does not point conclusively

[4] A debt management plan is an affordable repayment programme established by an independent party. The consumer makes a single payment to the DMP administrator who distributes the funds to individual creditors.

to one particular mix being the right answer. The vast majority of those who seek debt advice are successfully assisted; indeed, in many cases their lives are enhanced.[5]

Tax and benefits

1.17 Key triggers that motivate consumers to seek guidance on benefits and tax are: a life event that changes an individual's circumstances, outgoings exceeding income, and promotion of schemes such as tax credits.

1.18 Guidance on benefits is available from both the public and third sectors. Public sector guidance is available on a range of subjects via the Directgov website.[6] The site links to other public bodies, such as Jobcentre Plus, a Department for Work and Pensions executive agency, that use F2F, telephone and web channels with facilities to make certain claims online. Many third sector organisations provide advice on benefit entitlement. Citizens Advice Bureaux in England and Wales provided benefit assistance to 1.6 million people in 2006-07, which was the second largest single type of enquiry after debt. A fundamental part of debt advice involves budgeting, therefore debt advisers have a broad understanding of the benefits system and will advise people of ways to maximise income.

Citizens Advice Bureaux

Each bureau is an independent charity responsible for its own funding, 68 per cent of which comes from local authorities and the Legal Services Commission. The central Citizens Advice body is a charity and a company limited by guarantee with 80 per cent of income sourced from government grants. Individual bureaux operate within a framework set by Citizens Advice which provides information, training support, and audits all members against quality standards.

Annual enquiries: 5.5 million	**Coverage:** 430 bureaux in 3,300 locations across England and Wales
Annual income: Central body £46.6 million, individual bureaux £141.2 million	**Customer interactions:** Range from 10 minutes to continuing casework
Channels: 74 per cent F2F, 21 per cent telephone and 4 per cent letter and e-mail	**Advisers:** 26,000 bureaux workers 77 per cent of who are volunteers

Commercial provision

1.19 Regulated financial advisers will advise on tax matters. It is more common for financial advisers to address matters related to tax than benefits, though eligibility for means-tested benefits is of relevance to long-term savings. There is some evidence that the actual reach of registered advisers is increasingly concentrated in the higher socio-economic segments.[7]

[5] External client and mystery shopping research on the National Debtline service has recently been carried out. Those clients who were being interviewed for the second time evidenced a lasting impact: 88 per cent feel "more in control" of their finances. Of these, 79 per cent claim this to have had a "very positive effect on their general physical wellbeing", www.nationaldebtline.co.uk/media_information.php

[6] www.direct.gov.uk

[7] *Financial Capability; the Government's long-term approach*, HMT, January 2007.

TaxAid

TaxAid is a charity offering in-depth specialist tax advice to people below an income threshold of approximately £16k per annum. Individuals earning above this threshold are referred to commercial providers. Commercial providers do not cover tax issues impacting on low-income clients (e.g. tax debt, interplay of tax and benefits) and refer to TaxAid themselves.

Annual enquiries: 5,000 telephone calls per annum with 1 in 12 proceeding to F2F	**Coverage:** National by telephone with F2F in London and Birmingham
Customer interactions: The average call length is 20 minutes	**Advisers:** 6 full-time employees, 30 part-time professional volunteers

Interim conclusion

1.20 The Review's analysis of benefits indicated that benefits guidance is provided by the public sector in addition to a range of third sector organisations, with limited commercial provision, whereas the majority of in-depth specialist taxation guidance is provided by the commercial sector in addition to few third sector specialists.

1.21 A significant proportion of third sector provision of specialist financial advice relies on volunteers, such as TaxAid. These models can effectively meet people's needs; however, relying on specialist volunteers could indicate a challenge for scaling up such provision to provide a broader GFA service.

1.22 A national system of GFA should not seek to replicate current provision in the area of benefits and taxation but build on and utilise existing specialist guidance in these areas. A GFA service could broaden access to these services by identifying needs and increasing connectivity; whilst providing general guidance and signposting to the specialist service providers of those who need it.

Budgeting

1.23 The Review interprets GFA on budgeting as helping people:

- make ends meet by living safely and successfully within a given income, including the appropriate use of borrowing and credit to iron out fluctuations and to meet particular needs;
- make more effective use of their resources and to move from just "getting by" to releasing resources to improve their quality of life, reduce stress and start to address longer term issues such as savings and protection against certain and uncertain future life events.

1.24 Budgeting is often a diagnostic tool for the provision of advice on other needs. For example:

- an assessment of income and outgoings is a core part of debt advice;
- FSA-regulated advisers usually draw up a statement of income and expenditure with their client; an essential part of "knowing your customer" and assessing the suitability of products. Some banking systems track whether customers are making ends meet, and this information can act as a prompt for offering regulated advice and products to clients.

1.25 Research has shown that budgeting advice can be seen as personalised, motivating and actionable.[8] Even when the advice is delivered by FSA-regulated advisers, who charge a fee, this type of advice can deliver benefits that outweigh the associated fees, even in the short run.[9] It is not clear whether free budgeting advice, in advance of a crisis, is widely available. However, Citizens Advice has found through piloting projects with Independent Financial Advisers (IFAs) who donate time pro bono to their bureaux, that people will use the CAB service for financial issues unrelated to debt.

Online tools and price comparison

1.26 Online tools can prompt people to make ends meet and think about making more effective use of their resources. Some tools concentrate on key outgoings, such as utilities, mortgage payments and Council Tax, while others go into greater detail and include food, travel to work, and leisure spending.

FSA Debt Test tool

The FSA launched a Debt Test tool in January 2006; this was developed jointly with the BBC and Experian. The interactive tool uses diagnostic software to help people identify whether they are likely to get into difficulties with their borrowing over the next year or so. It also provides tips on how to avoid debt problems and how to tackle debts.

Of the respondents who started the Debt Test, 83 per cent went on to complete it, and nearly half felt more confident about their finances after taking the test.[10]

1.27 There is a thriving supply of tools and information (again mainly on line) that can help people shop around, compare prices and get the best deal in core areas of spending. While these tools cannot be considered as offering budgeting advice, they might prompt people to take action to put their budget on a more favourable long-term footing. Word of mouth is an important prompt for people to take specific actions to save money, as social networks disseminate best deals. A recent report by the Resolution Foundation[11] suggests comparison websites increasingly include information in addition to price. However, in many cases there are limited explanations of technical terms and a level of financial understanding is required for consumers to benefit.

1.28 Analysis shows that people are not usually inclined to seek budgeting advice in isolation. The channels through which budgeting advice is offered reflect this. There are a significant number of budgeting diagnosis and analysis tools on the Internet, where capacity issues are negligible. Access to these tools may not be universal and they are not necessarily personalised for the individual. Telephone or F2F budgeting guidance is offered in the context of a crisis-based event or as part of a product sale.

Interim conclusion

1.29 The Review's analysis of the provision of budgeting advice supports the findings from the analysis of debt and pension advice: that people are not prompted to take advice outside of a crisis event or specific issue.

1.30 In addition, the Review found that some elements of budgeting advice are not being provided. For example, budgeting guidance tends to focus on how to make ends meet rather than

[8] The AXA Avenue project created just this environment. The advice people received often changed their lives, without products changing hands.

[9] *AXA Avenue the fourth quarter review: Learning's and recommendations*, January 2007, AXA.

[10] Financial Services Authority, 2007.

[11] *Research report: Compare and contrast*, Resolution Foundation, October 2007.

how to make better decisions, which are a precursor to improving the pattern of income and outgoings for the longer term. This is an important gap, since personalised action-oriented guidance in this area would seem to be an important contributor to:

- preventing crises;
- moving people on into better long-term control once a crisis has been dealt with;
- de-stressing the daily, weekly or monthly money cycle; and
- overcoming important barriers to forward planning and taking action.

1.31 People are chiefly prompted to seek advice by a life event – and this call is strongest at the "emergency" end of the spectrum. The anticipation of life events in particular seems too weak a stimulus to seek advice. This suggests that a national GFA service will need a creative, proactive engagement strategy if it is to serve its preventative function. It will need to reach people with the message that there is a service that can potentially help with important, but not urgent, issues in their lives.

Planning ahead

1.32 Having assessed the provision of GFA by topic area, the Review now considers the provision of GFA against two need areas: planning ahead and taking action. The need areas have been sourced from the domains used by the FSA in its baseline survey.

1.33 The majority of the UK's population would benefit from advice on planning ahead; 39 per cent of people say they live for today and let tomorrow take care of itself, and poor forward planning affects people irrespective of their income.[12] Information and guidance on forward planning advice is usually triggered by a life event, such as the birth of a child, or an event that has become urgent, for example impending retirement.

1.34 Forward planning issues that could be addressed by GFA include: going beyond immediate day-to-day budgeting to help people anticipate what life might hold, for example improving understanding of the probabilities and risks of long life, of an unexpected financial setback brought on by an accident, ill health, being a victim of crime or a climate event such as a flood. It should help people prepare for life events such as marriage, starting a family and retirement.[13]

Commercial provision

1.35 The commercial sector responds to the need for people to plan ahead by providing advice and products that respond to future needs or events such as buying a home or preparing for retirement. Financial advisers in the UK fall into three broad types:

- whole-market advisers[14] – offer products from the whole market;
- multi-tied advisers – offer products from a limited number of product providers; and
- single-tied advisers – offer products from one provider.

[12] *Levels of financial capability in the UK: Results of a baseline survey*, FSA, March 2006.

[13] Retirement can itself have two distinct planning needs: the need to save while working for life after work, and the need to choose how to sustain income when retired.

[14] Where a whole-market adviser offers their clients the opportunity to pay on a fee basis, they can use the title "Independent".

1.36 The FSA has introduced guidance to help improve people's understanding of regulated advice, through its Key Facts documents.[15] Assistance in choosing an adviser is available; IFA Promotion[16] differentiates between types of advisers via its websites and allows people to find local IFAs according to their requirements. Despite this, the regulated advice environment can appear complicated. The different qualifications of advisers and relationship with product sales can leave people uncertain about where to go for impartial, sales-free advice that covers a full range of financial topics.

1.37 Several generalised features of commercial advice models are relevant to a national provision of GFA:

- Some financial advisers proactively seek people who may have future needs but not realise it. They engage their customers in discussing and planning for those needs.
- Forward planning advice tends to be highly personalised and actionable; delivered as part of a holistic process that includes budgeting advice and solution selection.
- Forward planning advice tends to be chargeable. IFAs are obliged to offer customers the option to pay a fee but the most common route is via the revenue generated by commission on product sales.
- The advice tends to be F2F because that has proven the most successful channel for overcoming customer reluctance with regard to market and product complexity. The workplace has, historically, been a channel for financial advice, especially in larger businesses with corporate pension schemes.

Interim conclusion

1.38 The analysis has shown that the commercial financial services sector effectively delivers forward planning advice. The Review considers that there is still a gap in this need area for GFA to fill that would not duplicate the commercial model because:

- many potential users of commercially delivered advice believe it is not relevant to them;
- the inhibitors that prevent people seeking advice make them extremely reluctant to pay for it up front;
- the publicity surrounding past poor advice.

1.39 This discussion can only give an impression of the commercial advice sector. The sector is highly diverse and its variety demonstrates the range of ways in which advisers have accessed their customers.

1.40 It is clear that many people tend not to seek advice on how to prepare for future life events, even welcome or inevitable ones. The Review's observation of the provision of forward planning by the regulated sector suggests it has a style characterised by coaching, counselling, challenging and persuasive elements, the latter being necessary because of the reluctance to engage with this topic. Regulated advice for individuals in particular tends to be targeted towards commercial outcomes. It is not clear from the evidence we have seen so far to what extent generic forward planning advice is available more widely in practice through this channel.

[15] The Key Facts logo is designed to help consumers identify which are the priority documents they must read when arranging a mortgage, buying insurance and receiving financial advice.

[16] IFA Promotion operates through unbiased.co.uk and impartial.co.uk

1.41 The workplace offers a delivery channel for lower cost forward planning. This advice tends to be less personalised and concentrates on issues relevant to employee benefits, such as pensions. The FSA, in its National Strategy for Financial Capability, has shown that less-personalised advice, when delivered in the workplace by a clearly impartial source, can lead to action.[17] The workplace could act as a trigger for demanding personalised GFA information and guidance over the telephone, in person or via the Internet.

Workplace advice – National Association of Pension Funds: PENSIONSFORCE

PENSIONSFORCE aims to increase the take up of employer-provided pensions by providing an independent, non-commercially-branded service for employers. The service is available free of charge to employees.

PENSIONSFORCE provides unregulated advice and concentrates on employees who have not joined workplace schemes, women, and employees in small and medium business.

Established: September 2006 and piloted in certain regions	**Coverage:** Yorkshire, Humberside, West Midlands and the South West
Funding: DWP Pensions Education Fund (set-up costs £100k)	**Customer interactions:** 90 meetings since formation (May 2007)
Channel: 30–60 minute presentations in the workplace	**Advisers:** Volunteer Pensions Guides engage from all industry sectors

1.42 The majority of the UK's population would benefit from advice on planning ahead. However, most people will only seek it when prompted to by a life event. The commercial sector generally dominates advice on planning ahead, but many people are unable or unwilling to pay for forward planning advice in advance. Furthermore, the connection between remuneration for advice and product sales undermines, for some, the impartiality of commercial sector advice in this area. As a consequence there is a potential gap in the market for GFA in the area of forward planning.

Taking action

1.43 Research shows people to be generally poor at choosing products,[18] and 46 per cent of people surveyed by the FSA did not collect information on products before making a decision.

GFA information and guidance on taking action means:

- support to choose a product type or service to meet an identified need;
- guidance towards a course of action in response to a specific stimulus, such as a letter from a provider about an existing product, or from Government or employers about a change in the law or employment conditions.

[17] The FSA's independent evaluation shows that 70 per cent of those who attended a seminar felt that the seminar had improved their knowledge and understanding of money issues and 82 per cent intended to take positive action. Of those surveyed three months later, 60 per cent had either already taken action or still intended to do so. FSA, 2007.

[18] *Levels of financial capability in the UK: Results of a baseline survey*, FSA, March 2006.

1.44 In practice, this could mean information and guidance on some types of general insurance product (car, home, possessions) or on selecting a bank account. In other areas, people tend not to see their needs clearly and solution selection follows from other kinds of advice (e.g. budgeting or forward planning) or the purchase of a related product (e.g. life cover or income protection related to buying a mortgage). The clearer the need, the more easily people identify the type of product they might use to meet that need and the more likely they are to proceed to buying, using on-line buying guides and price comparison sites, recommendations from friends and family or their own experience of brands.

Commercial provision

1.45 The commercial advice sector is effective at getting users to take action and select solutions. It tends to result in the selection of both a solution and the purchase of a specific product from a specific provider. This type of advice is restricted to regulated advisers.

1.46 In terms of information and guidance in response to a stimulus, problem-solving advice, the analysis shows that different providers meet different needs:

- product providers provide help and guidance about their products;
- regulated advisers usually provide their clients with help and ongoing advice about the products they have advised on, in the process having to also take into account other products already held and how new needs can best be met;
- specific services cover particular areas; for instance, The Pensions Advisory Service (TPAS) offers a service where pension savers can have questions answered, problems addressed and disputes resolved.

The Pensions Advisory Service

The service is made up of 500 volunteers and 35 full-time staff. The TPAS volunteers all have significant industry experience and their value is estimated to be £10 million per annum. TPAS volunteers are recruited from the pensions industry and are expected to have a relevant professional qualification, e.g. lawyer, actuary or Associate of the Pensions Management Institute, together with at least five years' pensions experience. Those without a qualification need to have a minimum of ten years' experience. Similar standards apply to staff.

Coverage: National	**Advisers:** 450 volunteers and 35 full-time staff
Channels/interactions: Telephone (54,000 p.a.), written (8,000 p.a.), web (500,000 p.a.) and workplace seminars	**Contact time:** The average call length is 5-6 minutes in addition to ongoing casework

Regulatory boundary

1.47 The area of taking action and selecting a solution that results in the purchase of a product brings into focus the boundary between regulated and non-regulated information and guidance. Making a recommendation to use a specific product solution from a specific product provider is regulated by the Financial Services and Markets Act 2000. This issue is discussed in more detail in Chapter 3. The Review believes that the regulatory boundary should not act as an inhibitor to delivering the GFA. Examples of what it can do are outlined in the following box:

Examples of practical GFA tips on taking action:

"Before buying home insurance, check the price and any exclusions."

"Before buying life insurance, use these rules of thumb to decide how much cover to buy. Check conditions and how quickly you can be put on risk."

"Before opening a deposit account, check the interest rate, any charges for going below a minimum balance, and any notice period within which you might lose interest."

"Before buying an annuity from your pension provider, think about the type of retirement product you might need, taking into account personal needs and aspirations, and look at other companies' rates; you might want to see an IFA."

"Before taking out a credit card, look at the APR. This is what APR means. Now think about whether this is the most efficient form of borrowing or whether setting up a direct debit to repay a bank loan would be better value."

Interim conclusion

1.48 The Review's analysis of provision in the need area of solution selection and taking action supports the analysis of other topic areas: people tend to seek guidance and information in response to an external stimulus. Otherwise, they select their own solution, or are prevented from taking action because of the human tendency to put off long-term or complicated decisions.

1.49 In scenarios where people diagnose their own needs and proceed to buying products direct, there is little help and guidance available on the priority points of comparison, the things to check before buying, or the routes to further advice. There can also be a conflict of interest between selling products and guiding people to the possibility of better deals elsewhere. GFA could fill this gap and provide guidance that equips people to interact with commercial providers on a more equal footing and with more confidence.

NATIONAL APPROACHES TO GFA

National Strategy for Financial Capability

1.50 The FSA leads the National Strategy for Financial Capability. It pursues a partnership approach, working with a range of trusted intermediaries, such as youth workers, housing workers and voluntary advisory services, to support the expansion of entry-level GFA. The FSA's programme combines long-term measures to lay the foundations for sustained improvement over time and shorter term measures to deliver a more immediate impact. It is anticipated that all this activity will, over time, stimulate demand for more in-depth advice services.

1.51 The FSA's experience demonstrates the importance of working with an increasingly broad range of partners, seeking to reach people where they are: for example, a young person not in education, employment or training may turn to their outreach worker for help but they may be unlikely to turn to the FSA.

Financial capability: the Government's long-term approach

1.52 The Government has set out its long-term aspirations for financial capability in "Financial capability: the Government's long-term approach". This complements the FSA's national strategy, enabling faster progress and extending the reach of financial capability. With additional Child Trust Fund payments from 2009, and the implementation of Personal Accounts for pension saving from 2012, the Government believes there are new opportunities to promote greater capability across the life cycle. The Government's financial capability action plan will be published in spring 2008.

Financial inclusion strategy

1.53 The Government's financial inclusion strategy Promoting Financial Inclusion identified access to free F2F money advice as a key priority, alongside access to banking and affordable credit.

1.54 To increase the supply of free F2F money advice the Department for Business, Enterprise and Regulatory Reform manages £47.5 million from the Financial Inclusion Fund. The funding has been allocated to 16 project partners across England and Wales, targeted in areas of high financial exclusion.

1.55 The Government is also piloting methods of money advice outreach in different locations working with intermediaries, including family and children's centres, housing offices, credit unions, community centres and prisons. And it recently announced that there will be a new £130 million Financial Inclusion Fund for 2008-11. This fund will be used to support a range of initiatives to promote financial inclusion, including the continued provision of free debt advice for financially excluded people. The Government will set out how the provision of this and other initiatives will be taken forward in a detailed action plan for financial inclusion, to be published by the end of this year.

International lessons

1.56 In addition to analysing the gaps in the provision of financial advice in the UK and learning from the ways this advice successfully meets people's needs, the Review wanted to learn from the international examples of delivering GFA. We commissioned the Financial Services Research Forum to examine the international provision of GFA in terms of delivery model, scope of service, delivery channels and popularity.[19]

Key findings

1.57 In terms of the method of delivering GFA, the Internet emerged as the primary channel, frequently supported by telephone and F2F advice. In the majority of countries, telephone and F2F advice is one-dimensional and facilitates the distribution of information as opposed to offering personalised guidance. Almost all of the countries providing GFA did so free at the point of delivery.

1.58 There is plenty the Review can learn from international provision of advice; for example, there are international examples of successful attempts to provide GFA at a national level that appeal to broad segments of the population. Most schemes to some extent adopt a multi-channel approach, to suit the preferences of different groups.

[19] Annex 6 – *International Research*, Financial Services Research Forum, October 2007, www.hm-treasury.gov.uk/independent_reviews/thoresen_review/thoresenreview_index.cfm

CONCLUSIONS

1.59 Before getting into the conclusions, it is important to record the breadth and quality of existing advice services within the UK. The Review is aware of the excellent work and commitment that exists, which makes a real difference to the lives of many people.

1.60 From its analysis of the nature of the gap in existing provision of financial advice, whether it is in availability on a national scale, ability of individuals to access it, range of issues covered or the personalised, unregulated and preventative character of the service, the Review can draw out a number of key findings:

- **Availability on a national scale:** Elements of GFA are delivered on a national scale; for example, budgeting as part of debt management. The regulated sector delivers advice on taking action, however much of this is naturally focused on commercially attractive clients. Specialist advice GFA-type information and guidance is available from the third sector in certain areas, but a national coverage of all GFA elements is missing.
- **Ability of individuals to access advice:** There are three main delivery channels: F2F, telephone and Internet. It is clear that many organisations find a multi-channel approach most effective, with telephone and F2F being orientated towards guidance as opposed to information. Non-crisis, free-of-charge GFA information and guidance on specialist areas such as pensions appears to be concentrated towards the telephone, Internet and worksite based venues.
- **Range of issues covered:** Specialist help and guidance with budgeting and forward planning is in relatively short supply outside of crisis and commercial environments. Commercial organisations inevitably direct effort towards commercially attractive segments of the population. There is little evidence of people being prepared to pay for such a service independently. The pattern of third sector problem-solving assistance is varied, and some very strong specialist providers exist in the areas of pensions and tax. A GFA service could broaden access to these services by identifying needs and increasing connectivity.
- **Personalised, unregulated advice:** In terms of forward planning, limited preventative advice is on offer. For example, there appears to be limited connectivity to prevent those who resolve a crisis from returning to it again. At present there is no service offering preventative, impartial, unregulated financial advice.

1.61 These findings broadly support the Government's hypothesis; there is a gap in GFA provision.[20]

[20] *Financial Capability, the Government's long-term approach*, HMT, January 2007.

IMPLICATIONS FOR THE DESIGN OF A NATIONAL SYSTEM

1.62 From the examination of the provision of financial advice in the UK and other countries, the Review can draw out a number of hypotheses about the nature and structure of any national GFA service and the delivery systems that are likely to succeed. The hypotheses are summarised below and are discussed in more detail in the following chapters:

1. People are chiefly prompted to seek advice by a life event – and this call is strongest at the "emergency" end of the spectrum. This suggests that a national service will need a creative, proactive engagement strategy if it is to fill the gap in preventative advice. It will need to reach people with the message that there is a service that can potentially help with important, but not urgent, issues in their lives. This is addressed further in Chapter 2.
2. The most successful current advice providers have trusted brands, which are associated with services of a particular kind. Impartiality and a sense of being "on my side" are the most appealing characteristics. The extent of successful provision of GFA in several key areas means we need to closely examine models which would allow this provision to work alongside, or as part of, GFA. This is discussed in Chapter 2.
3. Existing providers successfully use a wide variety of channel strategies, ranging from web to F2F. The evidence does not point conclusively to one particular mix being the right answer. The Review is therefore piloting various mixes, as discussed in Chapter 3.
4. The review has seen models adopting both prescribed and counselling approaches. The prescribed end of the spectrum utilises scripting and decision trees. Counselling is more flexible and customised to the consumer's needs. Each has its merits with regard to risk, consistency and relevance for the individual. There are effective versions of each therefore both are being piloted in context.
5. The Review has seen styles of advice that match people's needs, and different levels of expertise required of advisers. This prompts further work as to whether a feasible model that meets customers' needs to identify appropriate products can be built outside the regulated perimeter. This issue is discussed further in Chapter 3.
6. The depth and strength of existing provision in some areas suggests that a service delivering all aspects of GFA, for example complex debt advice, would duplicate existing services. This implies that a GFA service should explore a "partnership" structure. Models for delivering a national service are discussed further in Chapter 3.

NEXT STEPS

1.63 The Review recognises that this analysis of the gap is a high-level overview although one that is based on our observations following the responses to the Call for Evidence, consumer focus groups and visits to financial advice providers. The Review is aware that financial advice is sometimes localised[21] with better provision in some areas than others.[22] In recognition of this, the Review will map existing provision by region to establish gaps in existing infrastructure.

[21] For example, Stoke on Trent City Council tenants have access to a free programme that addresses money problems through impartial, professional advice that is designed to enable people to improve their financial situation. www.a4e.co.uk/Public_Sector_Stoke_Project.aspx

[22] Advice-providing organisations can be found at www.adviceuk.org.uk

1.64 The Review recognises that the commercial sector is developing innovative GFA-type information and guidance on many financial products and life events outside of the sales process and is keen to understand the nature of this provision before producing its Final Report. Chapter 3 discusses the role of the commercial sector as a provider of GFA services, whether on behalf of the main organisation, under a contractual arrangement or as a jointly labelled accredited partner.

1.65 **The final word in this chapter belongs to the thousands of people who offer excellent advice services to people all over the UK. The Review is an opportunity to showcase what they do. The Review's duty is to build on what they do, based on a fresh and candid look at how even more might be achieved.**

2 Who needs a generic financial advice service and how can they be engaged?

Summary

The Review's intention is that the generic financial advice (GFA) service will be available to all, but, through marketing and design, will engage particularly with those who could benefit most from GFA, delivering a service that is aligned to their needs, in a way most relevant to them.

The Review's analysis builds up a spectrum of financial vulnerability across the UK's adult population, primarily using the Financial Services Authority's (FSA) financial capability baseline survey, to understand the groups who are most likely to benefit from GFA. From the analysis, two groups emerge: approximately, 7.5 million people who could benefit the most from a GFA service, recognising that around half of the people could be referred to sources of crisis support, and approximately 11.7 million people , who have significant GFA needs. The rest of the population could still benefit from GFA, particularly at key life stages, but the service should be designed, branded and located to attract the 19 million who will benefit most, particularly the 7.5 million most vulnerable.

Demand management through an effective engagement strategy will be key.

This "macro view" of the population's financial vulnerability is supplemented by in-depth qualitative research, where we asked people what they wanted from a personalised, but unregulated, financial advice service. This provided evidence that supports the analysis of the gaps in current provision of financial advice described in Chapter 1 and the macro assessment of the population's vulnerability. It also provided an insight into the behaviours or characteristics that appear likely to prevent people from using a GFA service. This chapter considers what an engagement strategy that could successfully overcome the barriers to engagement might look like.

Both pieces of research provide a good starting point to assess the likely GFA needs and the ways of engaging different groups of people. The output of the pilots will help build upon the hypotheses in this chapter.

Taking each issue in turn, this chapter is therefore divided into three sections:

- Section 1 sets out the different clusters of people and their GFA needs;
- Section 2 describes what we learned from conducting the consumer focus groups; and
- Section 3 identifies ways of engaging the different groups with GFA.

SECTION 1: THE POTENTIAL USERS OF A GENERIC FINANCIAL ADVICE SERVICE

2.1 One of the key principles for a national approach to generic financial advice (GFA) is a service that is available to everyone. One of the Review's terms of reference, "ensuring effective targeting of those most vulnerable to the consequences of poor financial decision-making", directs the Review to identify how best to make the service accessible to all of those who wish to use it, but through marketing and design engages the groups who could benefit the most from GFA with a service that is aligned to their needs, in a way most relevant to them.

Call for Evidence

2.2 Respondents to the Call for Evidence supported the principle of a service open to all. However, views were divided on the issue of targeting the service at particular groups and different areas of need. On the one hand, a minority of respondents suggested that certain groups could be steered away from the GFA service, through marketing or by being swiftly referred to other agencies through a "triage" type of service, or should not form part of the primary target market. Groups who could be excluded through marketing or triage include:

- those who are dependent on state benefits – on the grounds that they already have access to a number of advice sources;
- those who have complex needs, which are best suited to specialist providers operating in the commercial or third sectors;
- more financially capable groups, who are able to help themselves; and
- high-net-worth individuals, whose income or wealth profile makes them economically attractive to existing commercial advisers or those who are currently accessing regulated advice.

2.3 On the other hand, some respondents were keen to ensure that the service engaged particular groups as a priority:

- older consumers with modest private resources;
- the socially excluded, who suffer from multiple deprivation;[1]
- those with specific religious or cultural requirements (e.g. sharia law);
- those without access to the Internet or telephone;
- those with low levels of literacy or numeracy and/or those whose first language is not English; and
- women, particularly in relation to pension provision, single parents and divorcees.

2.4 Many respondents considered the practicalities of implementing means testing or filtering to control access to the service, but believed it would add too much complexity and cost to be of any value.

FSA baseline survey of financial capability

2.5 There is a large body of existing research relating to financial capability, which has informed the Review's assessment of the vulnerability of the UK's adult population. The FSA's 2005 baseline survey of financial capability,[2] covering 5,328 consumers, was the largest of its kind in the UK and offers a source of data on many of the variables that segment the population according to financial vulnerability and GFA needs. The survey was used to derive five domain scores measuring relative financial capability in the UK, in the box below.

[1] Definition of social exclusion "[it] involves the lack or denial of resources, rights, goods and service, and the inability to participate in the normal relationships and activities, available to the majority of people in a society… it affects both the quality of life of individuals and the equity and cohesion of society as a whole" from the executive summary *Multi-dimension analysis of social exclusion*, Social Exclusion Task Force, Cabinet Office.

[2] Personal Financial Research Centre at the University of Bristol developed a baseline study of financial capability among UK adults in 2005/06 for the FSA

Three measures of relative financial capability in the UK

Planning ahead – a measure that indicates people's willingness and ability to deal with expected and unexpected financial events (including retirement).

Staying informed – this domain measures an individual's willingness/ability to keep abreast of changes in the economy, new financial products and changes to existing ones, and knowledge of where to get help and advice.

Choosing products – a measure that assesses an individual's knowledge about financial products, attitudes to risk, and their behaviour and confidence in selecting appropriate financial products.

And two measures of managing money:

Making ends meet – indicates how well people are able to live within their means.

Keeping track – measures how well people keep track of their day-to-day finances.

2.6 Cluster analysis combining the results of the five domain scores indicated that those with high levels of financial capability tend to be older and with higher incomes. Those at the other extreme, with several low scores, tend to be younger and with lower incomes. But some measures of financial capability affect people irrespective of income. For example, all income groups score poorly on forward planning.[3]

Social Exclusion Taskforce

2.7 The Social Exclusion Taskforce (and its predecessor the Social Exclusion Unit) has produced extensive research that has a bearing on identifying "vulnerable" consumers. The taskforce is presently conducting quantitative research on "social exclusion across the life course". Its research aims to provide further insight into factors such as who is affected by social exclusion, how long these problems are faced, and what are the key drivers of exclusion. The research builds on an earlier research report commissioned by the taskforce, the Multi-dimensional Analysis of Social Exclusion[4] and on the original work creating an index of multiple deprivation (IMD).[5] The IMD has been used as one of the potential indicators of "vulnerability" in the Review's analysis of the different consumer groups.

Resolution Foundation

2.8 The Resolution Foundation's work on generic advice identified a target group of around 15 million adults on or below median earnings and for whom state benefits do not make up more than 20 per cent of household earnings.[6] The rationale for these individuals forming the core target group for GFA was based on:

- the difficulty that this group has in accessing advice from the private sector;
- relatively low levels of financial capability among this group; and
- the lack of a cushion of wealth and assets to fall back on should this group make poor financial decisions.

[3] *Levels of Financial Capability in the UK: Results of a Baseline Survey*, FSA, March 2006.

[4] *Multi-dimensional analysis of social exclusion*, Social Exclusion Unit, Cabinet Office available at http://www.cabinetoffice.gov.uk/social_exclusion_task_force/publications/multidimensional.aspx

[5] IMD contains seven dimensions or domains of potential importance in social exclusion. For example, material/economic resources, economic participation, health and well-being, access to public and private resources. See the Department for Communities and Local Government for 2004 INDICES OF DEPREVIATION http://www.communities.gov.uk/archived/general-content/communities/indicesofdeprivation/216309.

[6] *Closing the advice gap: Providing financial advice to people on low incomes*, The Resolution Foundation, May 2006.

2.9 A number of respondents to the Call for Evidence supported the Resolution Foundation's definition of a target group for GFA. Others highlighted the low correlation between financial capability and income. In addition, some respondents described how a life event, such as the death of a partner, may not reduce levels of financial capability, but could result in people requiring additional support and reassurance to make financial decisions in new circumstances. In cases such as this, life events can be a stronger driver of GFA need than income.

2.10 The Review concluded that existing research could only take it so far towards defining the target market for a national system of GFA. We therefore commissioned modelling of the UK population, primarily using the FSA's financial capability baseline survey, to arrive at a "grading" system of vulnerability as defined in broad terms.[7]

2.11 This analysis provides a "macro view"' of the UK population and, with demographic profiling, clusters people according to their financial vulnerability. It acts as a starting point for understanding the different groups that could benefit the most from GFA. The analysis will enable a GFA service to cover the topics that would most benefit vulnerable groups by developing a marketing mix and means of delivery that ensure these groups are reached and that the service design is aligned to their needs. Piloting a GFA service will help test some of the hypotheses in this analysis.

The Review's primary analysis of the UK adult population

2.12 The analysis, carried out by a consultant, Jackie Wells, uses data in the FSA baseline survey to profile the UK population according to vulnerability. While not providing all the components that could help define vulnerability[8] and therefore the target market for a national system of GFA, the baseline survey is the most comprehensive database of consumer financial behaviour, capability and attitudes in the UK.

Methodology 2.13 The Review's model assigns a score of one point to every individual represented in the FSA's sample (5,328 respondents) for each of the 17 indicators[9] that make up elements of "vulnerability" as defined in the Review's Terms of Reference:[10]

- "poor financial decision-making" could be defined as situations where people take actions that are inappropriate or fail to make any decisions. Examples include, failing to protect the financial security of the family through savings or insurance;
- "consequences" could be defined as situations where the consequences of a financial decision are proportionately significant and/or irreversible. Examples include decisions that cannot easily be reversed and which could lead to a significant change in wealth, such as purchasing an annuity or releasing equity from a property; and

[7] Jackie Wells Consulting. Full report, '*Target Market Analysis for GFA* is available at http://www.hm-treasury.gov.uk/independent_reviews/thoresen_review/thoresenreview_index.cfm as Annex I.

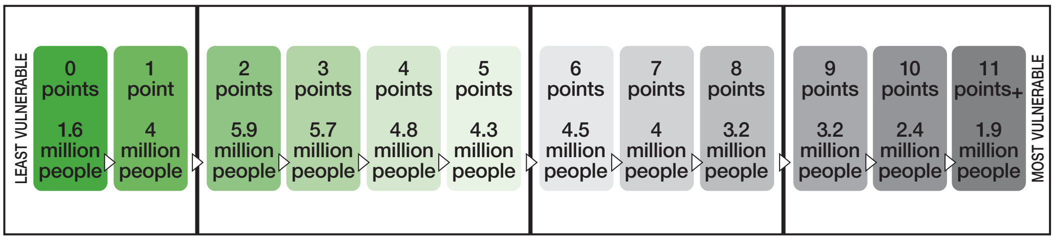
[8] For example, the survey does not include data on access to or ability to use the Internet or telephone or the choice of high charge or inappropriate products.

[9] The indicators were chosen following discussion with industry experts and stakeholders. See Annex 1 for a full list of contributors.

[10] One of the Review's terms of reference ask it to "[recommend the] most effective way of serving different groups of consumers, ensuring effective targeting of those most vulnerable to the consequences of poor financial decision-making".

- "vulnerability" could be defined very broadly[11]. It could represent situations where a lack of financial capability results in an inability to make appropriate decisions to act or to select appropriate products or in a lack of personal confidence in approaching financial matters.

2.14 There are two key parts to the model; first, the score is cumulative, with one point given to an individual where they exhibit one of the 17 indicators of vulnerability. Where they do not exhibit an indicator, their score is zero. This means that individuals with the highest scores have the most indicators of "being vulnerable to the consequences of poor financial decision-making". Second, the model does not incorporate any explicit weighting; the 17 indicators of vulnerability are given equal importance. For example, an individual who does not have the income or assets necessary to qualify for financial advice is given the same score as someone who is not saving for retirement or does not have a bank account. The results of the scores were grossed up from 5,328 individuals to represent the UK adult population,[12] and combined to develop a spectrum of vulnerability that covers the whole of the UK population, as shown below:



Findings 2.15 Profiling the groups according to their causes of vulnerability allows us isolate four clusters of people who can be differentiated by their demographics and potential GFA needs.

2.16 For example, those with scores of 9 points or more, as expected, share multiple drivers of vulnerability and can be therefore be described as the group with "high vulnerability". They lack access to commercial providers, have limited savings or protection products and run into difficulties making ends meet. Less than 20 per cent own their own home and 50 per cent live in areas with high levels of multiple deprivation. The next cluster, those with 6–8 points, can be differentiated from the most vulnerable group because they are generally good at keeping track of money and many have savings. More than 50 per cent of this group own their own home and less than 20 per cent live in areas with high levels of multiple deprivation.

The following box summarises the characteristics of vulnerability that bind each group, their expected needs from a GFA service and their demographic profile.

[11] The dictionary defines a vulnerable person as one who is susceptible, weak, defenceless. In financial advice, the root cause of vulnerability could be a dependency upon inappropriate advice or information sources (e.g. illegal lenders) or low level of literacy and numeracy that affects the individual's ability to access or assimilate information.

[12] The Review recognises that grossing up figures to represent the whole population does involve a margin of error. The numbers should therefore be treated as approximate, based on a number of assumptions.

	Most vulnerable 9–11 points	Regular users 6–8 points	Infrequent users 2–5 points	Occasional users 0–1 points
Number of UK adults	7.5 million	11.7 million	20.7 million	5.6 million
Vulnerability	Multiple drivers of vulnerability: lack of access to commercial advisers, poor planning ahead, very limited savings or protection, limited financial portfolio and therefore limited knowledge of products, difficulty making ends meet and over-indebtedness (almost half). Many who are working have no pension. One in five may have literacy problems and 50% live in areas with high levels of multiple deprivation.	Vulnerability driven primarily by not being adviser prospects (majority), not being experienced at choosing products, some lack of savings, over-indebtedness (one in three). Showing signs of not being good at planning ahead and more than one in three with low scores on making ends meet. However, generally good at keeping track of money and many have some savings. One in ten may have literacy problems and >20% live in areas with high levels of multiple deprivation.	Vulnerability driven primarily by not being adviser prospects (about two-thirds), not being experienced at choosing products or not keeping track of their money. Results in some over-indebtedness (around one-third) and some lack of savings but generally good at planning ahead and staying informed. At upper end of scores, some struggling to make ends meet. A small number have literacy problems and one in ten in areas with high levels of multiple deprivations.	Some lack of access to commercial advice and poor at keeping track of money but otherwise no significant signs of vulnerability. Consequences of subsequent poor financial decision-making unlikely to be significant for many (due to relatively high level of saving). Not at risk due to poor financial capability. No strong evidence of poor decision-making.
Expected needs of GFA	Approximately half of this group might be expected to require either crisis intervention or support from specialist agencies. Others expected to need help with pre-crisis managing debt and budgeting. Personal Account prospects.	Some crisis intervention but majority could gain help with interpreting products, managing debt, increasing savings, budgeting. Personal Account prospects.	Many of this group are capable of finding information and advice without the support of GFA. They do, however, need help in understanding products and some money management techniques. Focus on jargon busting.	Majority will not require targeted support from GFA. However, this group includes many approaching or in retirement. Some support may be required in complex areas such as annuity purchase/equity release.
Demographics	Average incomes 60% of national average. All household incomes <£40,000 after tax. Approx 20% have no financial products (yet). On average hold 1 banking/saving product types. 30% no bank account, 70% aged under 45, 8% aged over 65. Slightly less likely than average to be working but more likely to be working part time. Slightly more female than male. Many more singles, separated and divorced than average; only 25% married. Approx. 25% single parents. Higher than average in Wales, Scotland, NI and in England in NW, NE and London. Slightly higher than average non-white. Lower education levels than average (20% A levels and above). <20% own their own home, half in social housing.	On average incomes slightly lower than national average – almost half with incomes between £10k-£30k after tax. Approx. 5% with higher incomes. On average hold 2 banking/savings product types. Younger than average, 62% aged under 45, 16% aged over 65. Slightly more likely than average to be working full time. Slightly more female than male. More singles and divorced than average but >40% married. >15% single parents. Higher than average in NW, NE, W Midlands and London. Slightly higher than average non-white. Slightly lower education levels than average. <50% own their own home, more social housing and more private renting than average.	Incomes higher than national average – fewer very low incomes than least vulnerable but also fewer very high incomes. On average hold 4 banking/savings product types. Age more typical of population: 45% aged under 45, 22% aged over 65. Slightly more likely than average to be working full time. Slightly more female than male Slightly more likely to be married than average and with dependent children. Broadly geographical spread. Ethnic mix closer to population average. Slightly higher education levels than average. 75% own their own home, less social housing than average.	Typically higher income and/or wealth (although 1:3 have household income <£10,000 p.a. after tax). On average hold 7 banking/savings product types. Older (60% over 55). Half have retired, most of remainder in full-time work. More male than female. Predominantly married (but most no longer have dependent children). More likely than average to live in SE, SW, East of England or Yorkshire. Less likely than average to live in London, NE or Wales. Few non-white individuals 60% 'A' Level or above. > 90% own their own home (>30% no mortgage).

Interim conclusion

2.17 Based on the analysis of the UK population's vulnerability, the Review's hypothesis is:

- the vast majority of UK adults have some element of GFA need and could benefit from a national GFA service; and
- there are two priority clusters of people, totalling around 19 million, who represent those most vulnerable to the consequences of poor financial decision-making:
  - a) the most vulnerable cluster contains approximately 7.5 million people, recognising that approximately 3.0-3.5 million of whom may be better served initially by providers of crisis-related services;[13]
  - b) the second cluster contains approximately 11.7 million people and can be differentiated from the most vulnerable group because they are generally better at keeping track of money and many have some savings.

2.18 The Review's intention is that the GFA service will be available to all, but, through marketing and design, will engage particularly with those who could benefit most from GFA, delivering a service that is aligned to their needs, in a way most relevant to them. The rest of the population could still benefit from GFA, particularly at key life stages, but the service should be designed, branded and located to attract the 19 million who will benefit most, particularly the 7.5 million most vulnerable. Demand management through an effective engagement strategy will be key.

2.19 The Review's analysis provides a good starting point to understand the likely GFA needs and the ways of engaging different groups of people. The output of the pilots will help build upon the hypotheses in this piece of work. And information from other data sources will be used to enrich the profile of the potential users of GFA for the final report.

SECTION 2: EVIDENCE FROM CONSUMER FOCUS GROUPS

2.20 In addition to the demographic analysis of the UK population, the Review decided it was important to speak directly to consumers to really understand their wants. A series of focus groups was therefore run and depth interviews carried out around the UK.[14] The overall brief for the groups was: "To understand, from a potential user's perspective, what the desired content, style and governance would be for a national generic financial advice service". Background on the process and a more detailed assessment of output can be found in Annex 3 on the Thoresen Review Website.[15]

[13] For example, a person with complex debt needs will be better served by specialised debt agencies such as Consumer Credit Counselling Service, but questions about insurance needs could be directed towards a GFA service.

[14] This was a short and limited programme of qualitative consumer research conducted in order to identify some initial views and suggestions about the nature of the GFA service. Although the programme was limited in both scope and coverage, it has provided some initial insights for the blueprint of the service that will be further tested during the pilots and may require further substantiation before a full national service is launched. However, it endorses conclusions that have been reached through research conducted by the Resolution Foundation and others.

[15] A summary of responses from the consumer focus groups run by The Value Engineers is available at http://www.hm-treasury.gov.uk/independent_reviews/thoresen_review/thoresenreview_index.cfm.

2.21 Collectively, the participants felt that a GFA service should be able to offer advice on a wide range of subjects, ranging from basic budgeting and planning for retirement to investments and equity release. Overall, the top five topics that participants felt they needed from a GFA service were:

- jargon busting;
- managing debts and budgeting;
- savings and mortgages;
- planning for retirement;
- understanding taxes and state benefit entitlements.

2.22 Group members were open to a number of channels for delivery: web, telephone and face-to-face (F2F); with television and radio also being mentioned.

2.23 It was felt that any proposed GFA service should be seen as being authoritative, knowledgeable and having the best interests of the consumer at heart. In addition, the "personality traits" identified with the service were confident, professional, but down-to-earth.

2.24 There was a widespread view that the Government should have a leading role in running this service, as it was believed its role would strengthen the service's impartiality; but people were also clear that the GFA service should not feel like a government department and should operate independently. Financial services industry participation was seen in terms of providing the expert information provision that would underpin the service, rather than actually delivering information. It was felt there is potential for parts of the service to be delivered through existing third sector organisations that have strong reputations for specialist impartial advice.

2.25 The starting point for the focus groups was a service that would offer "guidance and advice on everything to do with your money and financial matters". The outcome of the groups substantiated the principles that the Review had developed for the national approach to GFA, namely a service that was:

- "on my side": impartial from government and the industry;
- supportive and informative: not criticising, but certainly persuasive of the need to act;
- preventative: helping people take charge of their affairs before serious problems develop;
- available to all;
- delivered in an environment that is clearly not linked to a product sale;
- able to give guidance, to empower individuals in making decisions, but stop short of product recommendations.

2.26 Although existing advice services already cover some of these topics, they are not available together and there are gaps. This is supported by the findings on the current provision reported in Chapter 1. Participants wanted a one-stop shop for financial advice that could offer all these elements in a non-sales environment.

Trust and GFA

Impartiality is a key element of a GFA service. The service must also be demonstrably independent from any links or relationships that might pose a potential conflict of interest.

The responses to the Call for Evidence and the Review's own research have shown some wariness towards the financial services industry. The effect of low levels of trust in financial services contributes to the lack of engagement. Some of the public's reluctance to trust the industry stems from a perception of disappointing past performance of investment products, some poor experiences of claiming on protection products and past high-profile mis-selling episodes. As a consequence, the Review's research showed that even where the financial services industry does offer GFA to prospective customers, it is seen as a precursor to a product sale. Based on the responses from the focus groups, people do not want this: they want a service that gives them impartial information and guidance.

The Review recognises that the financial services industry is responding to the issue of low levels of trust by providing information and guidance on many product types and life events outside of the sales process. The Review will continue to monitor with interest the activity currently being carried out in this area.[16]

When people are asked whom they would turn to for GFA, they frequently cite friends and family as their most trusted source. The quality of advice derived from these sources may be variable, but it is seen as being personal, "on their side" and intended to genuinely be of help and dependable. Any GFA service must ensure it works with the grain of such social interaction.

2.27 It is clear from the focus groups that a national approach to GFA is seen as important in addressing the current lack of knowledge and confidence, improving financial capability and ultimately reducing the occurrence of personal financial crises in the future.

2.28 Based on our evidence, including the focus group work, the Review has suggested that the following would be good outcomes for a national GFA service:

- People become more aware of straightforward budgeting and savings principles, leading to the establishment of active budgeting and savings habits, underpinned by preparedness for changing life stage and future shocks.
- People acquire a greater knowledge of financial products and services, leading to a more active approach to questioning how their money is handled and engagement with their financial planning.
- People keep their financial knowledge up-to-date by engaging with a range of existing sources of financial information. This would enable them to discriminate between products, while building confidence in their own financial decisions – even if that is to do nothing.

2.29 The Review would welcome views on these interim conclusions.

[16] Chapter 3 considers the role of GFA in a commercial setting in more detail.

SECTION 3: ENGAGING WITH CONSUMERS

2.30 Having identified the potential target groups for GFA and tested some of the proposals with consumers, this chapter considers the challenging task of how to get those in need of GFA to engage with the service.

2.31 The focus groups demonstrated that people tend not to engage with financial matters even when they should. The role of any GFA service will include stimulating demand among those who could benefit the most from GFA as well as managing demand.[17] This position has been further reinforced by the series of meetings and visits that members of the Review team have conducted this year with potential users of the service and financial services companies, third sector organisations and government agencies. Most of those individuals believe that some form of GFA would be beneficial.

2.32 A GFA service must reach those who most need it. However, it is clear from evidence received that many people are reluctant to connect with financial matters, even though it would often be strongly in their interest to do so. It is therefore necessary to consider:

- the barriers and triggers to engagement;
- non-financial examples that suggest the right sort of engagement to effect real change; and
- what needs to be tested.

What should a GFA service do to encourage engagement?

2.33 Respondents to the Call for Evidence consistently suggest that there is a need to create or utilise an existing strong brand to attract consumers and help effect the change in attitudes and behaviour necessary to connect the service to people's real lives and overcome the barriers to action. One respondent summarised the general view by stating that the GFA brand "must be simple, trusted and easy to recognise".

2.34 Clearly, strong brands are not easy to establish; this can take many years and substantial expense. So, the Review team has considered how a GFA service should make the most effective use of newly developing approaches and technologies, as well as conventional marketing methods.

Viral marketing

2.35 An important new development is "viral marketing". The Review is interested in this approach because one of the greatest success criteria for the service will have been achieved when usage is driven by word of mouth. Literature claims that a satisfied customer tells an average of three people about a product or service he/she likes, and eleven people about a product or service that he/she did not like.

[17] The Review has studied the current behavioural economics literature that endorses our view that it will be necessary for a service to reach out proactively to people rather than expecting people to come to it.

2.36 Viral marketing is the process of promoting an idea or a service by using pre-existing social networks to produce increases in brand awareness. It has recently been described as "creating an awareness of a product or a service by not selling it".[18] Viral marketing is not new, but it has been given considerable impetus in recent years by new Internet technology, in particular the creation of online social networks (e.g. Facebook, YouTube, MySpace and Flickr). The concept of GFA as a non-product sale "service" would seem to fit very well with using this mechanism. Further work will be required to see how this might be applied to GFA.

Social marketing

2.37 More conventional techniques for increasing overall awareness will also be needed. "Social marketing" is often mentioned to the Review as likely to succeed in raising public awareness of both financial matters and the existence of a national service to help people. This approach typically uses mass media marketing to achieve positive social or behavioural change. A catchphrase, such as "Clunk Click, Every Trip",[19] used for the seat belt campaign in the 1970s, can achieve this and also deliver the underlying message of the campaign. Such messages need to be memorable in a society where the weight and diversity of advertising is expanding rapidly. Social marketing campaigns typically use a broad messaging approach that may be either positive (based on likely rewards or benefits) or negative (based on fears of bad outcomes).

2.38 The Review's emerging thinking is that the engagement strategy of a national GFA service will need to include social marketing-type campaigns. But further work is needed on which approach would work best in the specific context of GFA. Many respondents to the Review have suggested that engagement will be stronger if the outcome of contact with the GFA service has a tangible benefit. The consumers' organisation Which? supported this view in its response to the Call for Evidence: "the goal should be to reassure citizens that taking generic financial advice will save them money, help them choose the best product for a defined need, to assist in achieving their life goals. It must be positioned in a positive way." A4e, the global private sector provider of frontline public services, said, "it is not a mortgage that people want to access, it is the home they can buy that interests them".

2.39 Alongside broad awareness campaigns to make the population aware of the need to engage with their finances, incremental campaigns targeting individual groups could also be effective, looking at need areas (e.g. planning for retirement) and life events (e.g. the birth of a child). The Review's piloting activity will cast some light on which issues should be highlighted to most effectively draw different groups of people to the service.

2.40 One important factor that is evident from the examples of behavioural change is the time necessary to achieve a real transformation of public attitudes. Lasting change in public attitudes is likely to take a long time to achieve.

Referrals

2.41 Referrals, from other financially related advice agencies, from the commercial financial services sector and from non-financial advice services of many forms, are also likely to be a key factor in engagement.

[18] "Catch the viral trend for a healthy marketing boost" by Richard Brass in the *Daily Telegraph* 6 September 2007.

[19] "Clunk Click Every Trip" was the slogan of a series of British public information films sponsored by the Royal Society for the Prevention of Accidents in January 1971, which starred Jimmy Savile. The slogan was introduced during the previous campaign, fronted by Shaw Taylor and featuring the slogan "Your Seatbelt is Their Security". These advertisements helped lay the groundwork for compulsory seatbelt use in the front seat of a vehicle, which came into force on 31 January 1983 in the UK.

Trusted intermediaries

2.42 The Review has also been persuaded by the many stakeholders who have argued that the GFA service must work alongside existing trusted intermediaries, who can provide access to sections of the population.

2.43 The examples provided by the focus groups highlighted opportunities where people are more receptive to receiving financial information and in locations where the deliverer of the information is considered a trusted source. For example, schools and the local maternity hospital or children's centre might be the right place to engage parents with GFA that is specific to their needs at that point in their lives. Indeed, this is the strategy already being pursued by the FSA with their Parents' Guide to Money. Contact in other areas, such as at work, in higher education institutions, while shopping, the GP surgery or local Jobcentres would focus on providing targeted GFA, concentrating on matters that would be appropriate to each of those settings. In each case, the engagement might provide basic information and awareness-raising material and a clear pointer to the GFA service as a source of further help. Other possibilities include working through third sector organisations such as Help the Aged, Gingerbread, Women's Institutes and cultural communities.

Conclusions on engagement approaches

2.44 The necessary ingredients, environment and approach for obtaining engagement with GFA have been discussed above. The research suggests that the GFA service must be seen as something that stands separate from the financial services industry and perhaps from the Government in order to be perceived as "on the user's side". In the course of discussions with many consumers and stakeholders, a number of innovative views and ideas have arisen on how the service could best engage with users, some of which are set out in this chapter. Obviously, such ideas would have to be tested and verified, including any potential knock-on effect on existing services – both financial and others. The Review team recognises that it cannot answer every question about creating a national GFA service. This is particularly true in respect of establishing a branding and marketing campaign for the pilot service. The Review will therefore seek to identify the key questions and issues for a national approach to consider in the next phase of research.

CONCLUSION

2.45 This chapter has discussed the different groups of people who could benefit the most from a system of personalised, but unregulated, GFA and the ways of engaging people in a service they could benefit from, but may not yet realise they want.

2.46 The Review's intention is that the GFA service will be available to all, but, through marketing and design, will engage particularly with those who could benefit most from GFA, delivering a service that is aligned to their needs, in a way most relevant to them.

Potential users

2.47 The Review's analysis has built up a spectrum of financial vulnerability across the UK's adult population, primarily using the FSA's financial capability baseline survey, to understand the groups who are most likely to benefit from GFA. From the analysis, two groups emerge: approximately, 7.5 million people who could benefit the most from a GFA service, recognising that around half of the people could be referred to sources of crisis support and approximately 11.7 million people who have significant GFA needs.

2.48 The rest of the population could still benefit from GFA, particularly at key life stages, but the service should be designed, branded and located to attract the 19 million who will benefit most, particularly the 7.5 million most vulnerable. Demand management through an effective engagement strategy will be key. The Review's analysis provides a good starting point to understand the likely GFA needs and the ways of engaging different groups of people. The output of the pilots will help build upon the hypotheses in this piece of work.

Engaging people

2.49 To supplement the macro analysis, we examined behaviours or characteristics that appear likely to prevent people from using a GFA service and looked at what an engagement strategy that successfully overcome them might look like. The Review's work so far suggests a successful approach would include:

- mass awareness-raising campaigns to alert people to the fact that there are financial issues that they should consider dealing with;
- more targeted campaigns, using advertising and trusted intermediaries, positioned at "trigger" points when people are receptive to receiving guidance;
- "viral" marketing, using social networks to raise awareness of the service, complementing word-of-mouth references to people's real experience of using it.

2.50 It will be a considerable challenge to persuade many people to move from their current reluctance in dealing with their own finances, or to act positively, even when sound information and guidance has been provided. It will also take time. It seems likely that both the Government and the financial services industry will have roles to play in providing consistent messages about the need for this service and promoting its role, but the final design will need to be mindful of consumers' clear desire that the service itself is independent of both. Success will have been achieved when people realise that they are able to take control of their financial affairs and that doing so can have a strongly positive effect on their day-to-day lives, as well as in the future.

NEXT STEPS

2.51 As described in Chapter 3, the Review is running a series of pilots to test elements of a "hybrid" or partnership delivery model for GFA. The pilots will test a variety of techniques to engage people to participate in the pilot service through marketing and communication campaigns using local and regional organisations. Independent evaluation of the pilots will include analysis of the different engagement strategies and the results will be published in the final Thoresen Review report in early 2008.

2.52 While the pilots will test some mechanisms for encouraging engagement, it is believed there are other areas that it would be beneficial to explore. Some of these will be addressed in the coming months, while others may be for the longer term. The further areas of work are:

- an examination of the practical mechanisms or key triggers that could ensure people engage with a proposed GFA service, particularly those who could benefit most from GFA;
- drawing on examples from the financial services industry and beyond, to continue to learn about the techniques that help manage demand.

2.53 The conclusions of this additional work will be included in the Review's final report.

QUESTIONS

1. The analysis of UK adults according to their financial vulnerability represents a good starting point to assess the likely GFA needs and the ways of engaging different groups of people. The output of the pilots will help build upon the hypotheses in this chapter. What further pieces of evidence, or data sources, could be used to enrich the Review's understanding of the different groups who would benefit from GFA?
2. Have we correctly identified the outcomes that a successful GFA service should aim to deliver?
3. What sort of approach would be the most effective way of engaging consumers in GFA – both initially and in the longer term?

3 Designing the national approach

Summary

This chapter sets out some of the key elements in the design of a national system of generic financial advice (GFA) in terms of:

- the scope of GFA;
- the range of delivery models that could provide a national service; and
- the elements of a national system that will be tested in the pilots of a GFA service.

The chapter sets out two important issues on which the Review has developed its thinking. First, in terms of the parameters of GFA, the Review believes that its vision for a national approach can be delivered without changing the current regulatory framework of Financial Services Authority and Consumer Credit Act legislation. Clearly, evidence from the pilots could change this view. We will make recommendations on what changes to the regulatory landscape may be required, if any.

Second, the Review believes a "hybrid" or partnership approach, working with other organisations to deliver GFA, is critical to successfully reaching different groups of people and delivering a national approach that fills the gaps in financial advice identified in Chapter 1.

The pilots represent a testing ground for many of the hypotheses and assumptions set out in the rest of this interim report. Recognising that the Review cannot answer every question about creating a national service, and the pilots will not test every element, the chapter considers the necessary next steps in developing the evidence base for understanding the real "nuts and bolts" of what a national GFA service might deliver.

THE SCOPE OF GENERIC FINANCIAL ADVICE

Introduction

3.1 This section considers the scope of generic financial advice (GFA), in terms of the range of topics a service could cover, and the depth, in terms of the interface between GFA information and guidance and regulated advice. It looks at the various regulatory boundaries that a service needs to navigate in terms of the depth of GFA, and how they both constrain and empower the service to tackle different needs.

3.2 On the basis of the evidence gathered so far the scope of GFA should allow the service to:

- feel personal and actionable – GFA should stay outside regulation and avoid developing casework. It should provide people with sufficient depth and breadth of information and guidance to empower them to take the next steps to help improve their financial position;
- work within the principle of impartiality – the service should be demonstrably independent from any links or relationships that might pose a potential conflict of interest. GFA should not be directly linked to a product sale, but signposting consumers to the financial services industry as and when appropriate is important; and

- deliver what people want and need – the definition of what GFA can and cannot do should make sense to people. The service should provide advice to a consistent depth.

These are the criteria against which the *scope* of GFA must be evaluated.

Breadth of GFA

3.3 In terms of the breadth of GFA, respondents to the Call for Evidence identified twelve topics[1] as "core" to any GFA service to help ensure individuals take the next steps to improve their financial position. They are: social security benefits and tax credits, budgeting, savings and investment, protection insurance, buying a home and mortgages, consumer credit and other borrowing, taxation, financial implications of life change, planning for retirement, bank accounts, consumer redress, and utilities. The Review's analysis of the gap in existing provision in the areas of forward planning and taking action largely supports the choice of core topics.

3.4 The Review's analysis of the vulnerability of the UK population and demographic profiling of different groups of people provides some insight into the expected GFA needs of different groups. For example, the most vulnerable groups in the UK have a need to understand products, manage debt and make budgets. Across all the groups in the UK there is a need for jargon busting.

Depth of GFA

3.5 The regulatory factors impacting on the scope of GFA are varied and complex and have a significant impact on the depth of the service. GFA differs from FSA-regulated advice chiefly because it does not result in a recommendation to buy, surrender or change a specific product from a specific provider. Within the regulatory boundary there is potential for a degree of confusion about what GFA is and what it is not.[2]

3.6 The relevant pieces of legislation impacting on potential GFA advice topics are:

- FSA regulation through the Financial Services and Markets Act 2000 (FSMA) which falls unevenly across the potential range of advice topics. Some topics fall outside the jurisdiction of regulation and, depending on when the FSA regulation came into effect, some topics are partially regulated.
- Consumer Credit Act 2006 (CCA) regulation affects debt-related topics. For example, providing guidance on ways to vary payments due under a regulated consumer credit agreement, such as a credit card debt, would bring GFA within the boundary of the CCA.

3.7 The Review commissioned Nick Lord, a consultant, to analyse the impact of regulation on the scope of GFA.[3] His paper assesses the relationship between GFA and regulated advice. Within the boundary of FSA and CCA regulation, the paper recommends a pragmatic and practical boundary for the scope of GFA that will enable the service to meet the GFA needs of the potential target market while maintaining clear water between GFA and regulated advice. Based on that analysis, the Review's starting point suggests that the current regulatory boundary should not act as an inhibitor to providing individuals with the information, guidance and tools they require to help them make better financial decisions.

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[1] The topics covered by a GFA service may change over time to meet consumer demand and the service should be sufficiently flexible to reflect developments in the financial services market.

[2] Confusion between regulated and unregulated advice may stem from the fact that regulated advice is defined in law through the Financial Services and Markets Act 2000 (FSMA) but GFA is not defined in law in the same way.

[3] Annex 2 – *Generic Financial Advice – Defining the Advice Boundary of the Service*, Nick Lord, available at http://www.hm-treasury.gov.uk/independent_reviews/thoresen_review/thoresenreview_index.cfm.

3.8 Based on the evidence gathered so far, the Review can describe the scope of GFA as given the box below:

The parameters of GFA

GFA will provide information and guidance to people on a range of financial topics, dealing with each topic to a consistent level of depth. It will translate financial jargon and equip people with questions to ask of providers.

GFA will provide guidance on a suggested course of action. For example, it will suggest to a new parent that "most people in your situation consider life cover". It will then provide information on the pros and cons of different types of protection and the consequences of not holding insurance, then guide users towards appropriate comparison tables and/or signpost them to the regulated advice sector.

GFA will signpost individuals to other services in the financial services sector, government or the third sector depending on the needs of the individual.

GFA will not make recommendations to buy, surrender or change a specific product from a specific provider.

GFA will not provide in-depth information or guidance on complex debt, tax or benefit cases. It will provide budgeting guidance and signpost individuals to specialist agencies.

3.9 Even within this boundary, the Review recognises that there is the potential for liability. As with organisations such as Citizens Advice and National Debtline, the GFA service cannot be immune from compensation claims or complaints, and as such would require indemnity insurance, as any other organisation of this type would. Mitigating the risk will be key, and very important lessons on doing so can be learned from existing organisations. We cannot be complacent, but can be pragmatic about managing this risk.

Practical application

3.10 The following examples set out how the parameters of GFA could work in the real world:

"I have had a letter from my mortgage company saying that my introductory rate is about to end."

The advice boundary will prevent a GFA adviser discussing the merits of changing an existing mortgage with ABC mortgage lender. But within this boundary, a GFA adviser can explain the pros and cons of different types of mortgages, and the advantages and disadvantages of changing to another mortgage (either with the same lender or a different lender), and can suggest questions to ask of the providers and signpost people to the FSA's comparative tables and/or the regulated-advice sector for further information.

"My friend has recommended I save for Christmas. What should I do?"

The advice boundary prevents a GFA adviser explicitly recommending a product type, so they could not recommend saving in a specific product with a specific provider. Instead, the adviser could explain the different types of cash savings products, the tax advantages of saving, for example, in a cash ISA and, for example, say that "you could choose to save in an instant access cash ISA if you want to establish an emergency savings fund which pays a tax-free rate of interest". The adviser could then signpost to further sources of information that would enable the individual to then choose a specific product from a specific provider.

Interim conclusion

3.11 The Review believes that its vision for a national approach can be delivered without changing the current regulatory framework of FSA and Consumer Credit Act legislation, so as not to compete unfairly with regulated firms. Clearly, if the evidence from the pilots changes this view, the Review will make recommendations on what changes to the regulatory landscape may be required, if any.

This is a working definition for the scope of GFA, largely replicating the FSA model of GFA,[4] and your comments are welcome.

3.12 The next section considers the options for delivering such a service nationally.

SERVICE DELIVERY – WHAT SHOULD THE MODEL BE?

What do people want?

3.13 This section analyses the pros and cons of three service delivery models and recommends trialling a "hybrid" delivery model in the pilots of GFA. The three models could be used to build a service that exists at some distance from government, close to it or separated entirely. Chapter 4 develops this discussion and considers the institutional and legal frameworks that could be used to deliver a hybrid delivery service.

3.14 The conclusions that the Review has drawn from the evidence gathered so far are that an effective service delivery model needs to:

- be perceived as impartial by users;
- have a business ethos of being "on the user's side"; and
- build on and learn from existing provision rather than reinvent the wheel.

These are therefore the criteria against which the possible delivery models must be evaluated.

Content of service

3.15 Any GFA service, in its widest sense, and however configured, will need to provide the following:

- public awareness and information activity;
- the provision of written material (leaflets, etc.);
- Internet-based information, tools and guidance;
- telephone advice; and
- face-to-face (F2F) advice.

If desired, other optional functions could be incorporated – for example a:

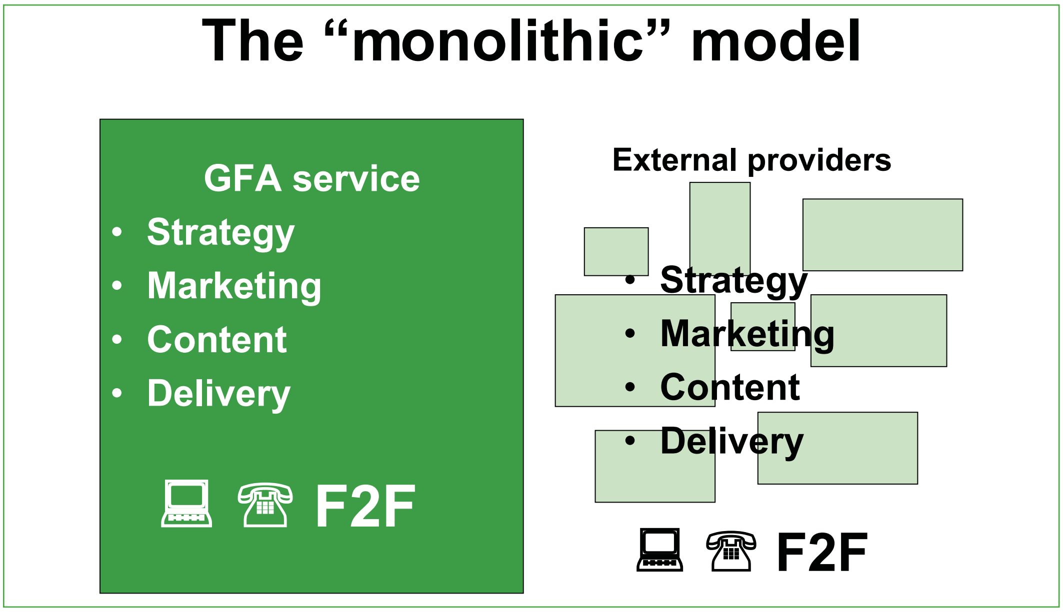
- regulatory or accreditation function in relation to advisers retained by other organisations and externally produced information/advice material;
- policy advisory function – perhaps coupled with a duty to make annual reports to the Government on the state and coverage of GFA in the UK;
- grant-giving function (distributing funds to external providers).

[4] *Financial capability: Developing the role of generic financial advice*, FSA, 2005.

Range of models 3.16 Early in the Review, it was suggested that any delivery model for providing the elements set out above would fall within a spectrum between two extremes, which were characterised as "monolithic" and "fully decentralised".[5]

A description of the models, including how they might look in practice and analysis of their pros and cons, is set out below.

The "monolithic" model 3.17 Under the monolithic model, all the essential functions set out in paragraph 3.15 would be provided by a national body under a single identity. As a direct provider of F2F advice, such an organisation would need a significant local presence, and, as a provider of a national telephone advice service, it would need to have a large call-centre capacity, although the Review has seen examples of national operations whose call-centre functions are managed by specialist outsourcing organisations. Community Legal Services Direct manages its telephone advice service in this way.



Example of a "monolithic" organisation providing advice-related services

The National Health Service (NHS) was created in 1948 and, with 1.3 million staff, is one of the largest employers in Europe. Responsible for delivering a range of primary and secondary care services – from GPs, dentists, opticians and pharmacists to acute and elective surgery, emergency care, mental health services and ambulance services – last year the NHS in England, on average per day, saw over 50,000 people in accident and emergency alone. That was in addition to holding nearly 900,000 general practice consultations and taking over 16,000 calls to NHS Direct, a national nurse-led service providing 24/7 telephone, Internet and digital TV access to health advice, information and support. Some of the biggest public health challenges the NHS faces in improving health and tackling health inequalities is reducing the number of people who smoke, reducing obesity, and increasing exercise, promoting sexual health and safeguarding people's mental health and well-being.

Source: Department of Health

[5] Otto Thoresen, speech to ABI conference, 10 May 2007.

3.18 The monolithic model is characterised by an ambition to deliver all aspects of the proposed service under its own brand, and by a lack of connection with other providers. Customers may, in practice, move between the monolith and other services, but not as part of a coordinated customer journey, and the relationship between the monolith and other providers ranges from outright competition to total disconnection. There is no attempt by the monolith and its satellites to coordinate their services for the benefit of customers or to harmonise the messages or services delivered.

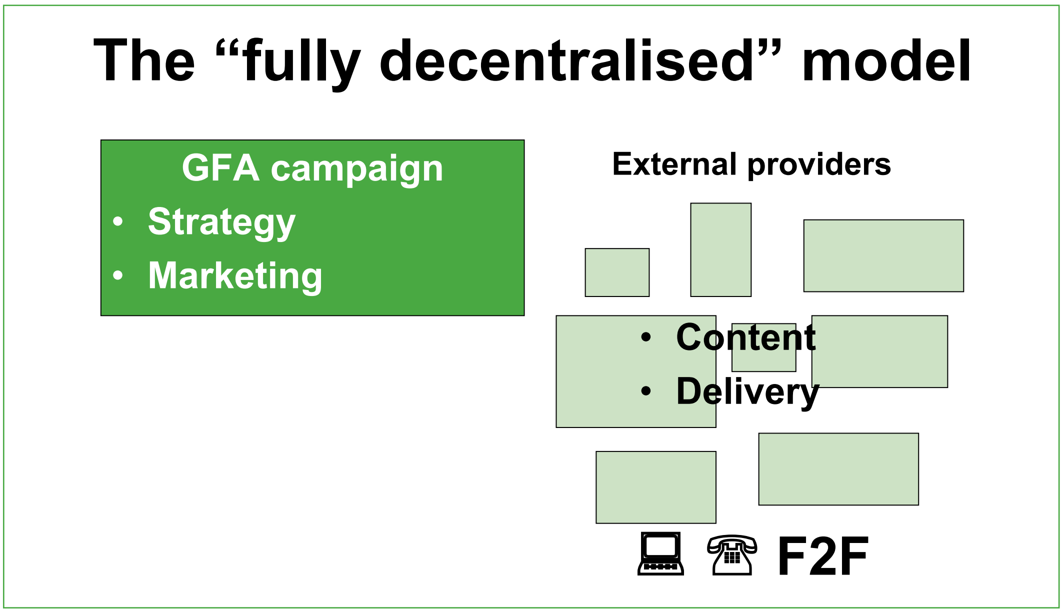
3.19 Real-life examples of this type of service are rare. Some public service organisations may appear monolithic, if only because of their size; but a closer look at large public or third sector organisations providing an end-to-end service, using the full range of delivery channels and with a significant local footprint, shows them increasingly working with and through partner organisations. This is particularly the case when trying to engage "hard to reach" groups or those with particular needs. For example, Jobcentre Plus, the government agency responsible for administering benefits and providing work-focused services to jobseekers and employers, delivers many of its employment programmes through contractual arrangements with third-sector and commercial providers. It also works strategically with a wide range of organisations that can help improve employment opportunities, including local authorities, Skills Councils and local regeneration partnerships.

Analysis

3.20 Chapter 1 outlined the wide range of organisations providing some aspects of GFA. Any new body established to deliver a national approach would not be entering an empty field. The Review does not believe it would be sensible to establish a new end-to-end service operating in isolation from existing provision. This would be unlikely to improve service to customers. At best it would simply introduce a further option into an already complex set of choices. At worst, depending on funding arrangements, it could cause existing provision to fade, and in the long term lead to a reduction in both the amount and diversity of help available, with damage to some successful, highly trusted brands. Finally, the infrastructure and staff required to deliver this sort of service would make it an expensive option.

The "decentralised" model

3.21 At the other extreme, a fully decentralised service would do the minimum centrally and rely on other organisations to provide services directly to customers where that is necessary. The minimum central function would consist of the provision of public awareness and information activity through a set of key messages that could be reinforced by product advertising within the commercial sector and any relevant public information produced by government and third sector organisations. At its most decentralised, this model is more or less a public information campaign, perhaps along the lines of current healthy eating campaigns, where public health messages promoted by the Food Standards Agency are reflected in "traffic light" indicators displayed on food products under a voluntary industry code (which not all retailers follow). It would also be possible to develop a regulatory, training or accreditation function in relation to advisers retained by other organisations to deliver GFA and externally produced information material within this model.



Analysis

3.22 Evidence from previous public information campaigns suggests that if effective advertising and marketing strategies can be devised, a fully decentralised approach focusing on public information activity could, over time, bring about changes in behaviour. Better awareness could also lead to customers approaching existing provision at an earlier stage rather than waiting until a crisis has arisen. An approach that combined public information with accreditation of external GFA provision could further improve the reach and consistency of advice provided by third parties. However:

- it is not clear that high-profile publicity campaigns could on their own deliver the right sort of call to action on financial planning, particularly among the target group for this Review; and
- even allied to an accreditation scheme and with a formal advisory function, the decentralised approach could not directly influence the overall level of external provision of GFA, or ensure that the service reached the different groups of people and provided full geographical coverage.

3.23 With no significant infrastructure costs, and on the assumption that any accreditation scheme would be self-financing, this could be a relatively low-cost approach. However, major and sustained publicity campaigns are not necessarily cheap.

Case study – 5 A DAY programme

(Department of Health, pilots initiated in 1999 to present)

This programme was instigated to increase consumption of fruit and vegetables in England.

Since the launch of the 5 A DAY logo in 2003, the programme has included national media campaigns, as well as local community initiatives, such as voucher schemes, growing and cooking skills and promoting networking among existing healthy-food groups. The framing of its core message of eating five items of fruit or vegetables a day has also been successfully adopted by many other stakeholders, including NGOs and the food industry, which applies the 5 A DAY logo to its product labelling and promotion. The Department of Health has actively encouraged the use of the logo on appropriate products and uses a licensing scheme to support this.

The programme has been successful in achieving high recognition of the logo and in raising awareness in the general population of the need to consume more fruit and vegetables. The Food Standards Agency Consumer Attitudes Survey found that knowledge of the 5 A DAY message had increased from 43 per cent in 2000 to 67 per cent in 2005. The campaign costs around £100,000 a year, largely funded by the companies that now use the strap line.

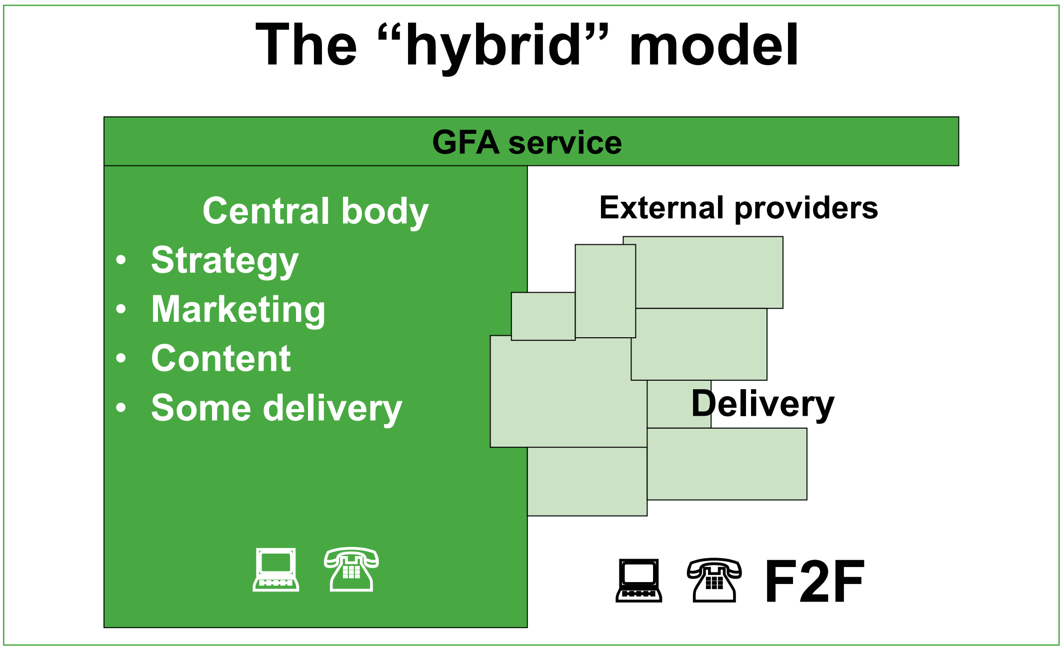
Source: National Social Marketing Centre

The "hybrid" model

3.24 The "hybrid" model is really a range of models. Although many variations are possible, all have at their core a body which:

- delivers public awareness activity;
- produces written material;
- provides information and advice to individuals via the Internet and over the telephone; and
- is responsible for training and/or accrediting external partners.

However, the central body would have no, or very little, role in providing F2F advice. This would be delivered, where necessary, by other, accredited, partners. The central body could have a role in the strategic delivery of the F2F service, for example by distributing funding or through a role in monitoring national coverage of GFA and advising the Government on gaps.



3.25 The service delivery model of many national advice services studied by the Review team could be described as lying within the hybrid range. They were characterised by heavy reliance on partnerships to deliver F2F advice, with referrals out to other organisations where appropriate. These partnerships were sometimes based on contractual arrangements – for example by outsourcing the call-centre function and sometimes managed through service level agreements.

Case study – Community Legal Services

The Community Legal Service (CLS) (to be renamed Community Legal Advice in November 2007) is part of the Legal Services Commission. It is a network of organisations which funds, provides and promotes civil legal advice and representation. It funds the full range of legal services, from straightforward legal advice to complex and lengthy proceedings requiring representation at court to those clients who meet the financial eligibility requirements as set by Government. These services are managed through contracts that the CLS awards to solicitors, not-for-profit agencies and other organisations.

CLS Direct combines a telephone service, Internet-based information and leaflets under one recognisable brand. As well as providing advice and a full casework service (including negotiating with third parties and providing written updates to clients) over the telephone, this service also refers cases to partner organisations where appropriate. In 2006-07 its outsourced call centre received 637,504 calls, and specialist telephone advisers completed 111,245 cases. The category accounting for the largest number of calls was debt (36,144). The CLS Direct website (www.clsdirect.org.uk) had nearly 3.3 million visits in 2006-07. Clients requested over 2.7 million leaflets, of which nearly one million were downloaded.

Analysis 3.26 The hybrid approach is really a range of approaches rather than a single model, but at all points of the spectrum it assumes a partnership approach, in which the central organisation works with external partners to deliver a service.

3.27 There are a number of benefits to the hybrid approach:

- it would minimise the risk of a new body duplicating existing services;
- it would allow existing F2F services to continue to deliver advice according to their strengths and customer bases. A greater diversity of delivery methods and styles would increase the chance of the service reaching its target market; and
- it allows the commercial sector to become involved as a provider of services either as, or on behalf of, the main organisation under a contractual arrangement or as a jointly labelled accredited partner.

3.28 There was no appetite for either the monolithic model or the light-touch decentralised approach in the output from the workshops and the consumer-facing research, where the Review invited stakeholders to brainstorm delivery models; all of which sat firmly within the hybrid spectrum, towards the decentralised end of the range.[6]

3.29 A successful hybrid model will need effective mechanisms for managing hand-offs or referrals for GFA into, and out of, the central hub, to external partners in the third sector and, possibly, the commercial sector.

3.30 The actual cost of a hybrid approach will depend on where in the spectrum it sits – the proportion of its services which are delivered centrally, the channel mix for those services, and the scale of the public information and marketing components as well as on the level of use. The considerations of the drivers of costs and funding in Chapter 5, are based on the presumption that the model finally recommended will be within the hybrid range.

PILOTING A GFA SERVICE

Introduction

3.31 So far this chapter has set out the parameters of GFA – what it can and cannot say – and the model for delivering such a service. A significant part of understanding the real "nuts and bolts" of what a national GFA service might deliver and how, involves testing some of the ideas and hypotheses from the evidence base. This rest of this chapter sets out the key variables that will be tested in the consumer pilots of a GFA service. Recognising that, in the limited trial period available, the Review cannot answer every question about creating a GFA service, nor test every element of national approach, this chapter considers the necessary next steps in developing the evidence.

[6] Annex 2 – *Summary of responses from stakeholder workshops*, The Value Engineers, available at http://www.hm-treasury.gov.uk/independent_reviews/thoresen_review/thoresenreview_index.cfm.

Overview of the pilots

- Two pilot schemes will be run to test the telephone, web and F2F advice channels. Web-based advice will use the FSA's moneymadeclear site as the primary source of impartial GFA.
- The pilots are geared to gain enquiries from 5,000 consumers in a twelve-week period from 17 September onwards.
- Both pilots will test the same variables and advice protocols, and collect the same management information (MI) on users of the service.
- Consumer Direct,[7] in conjunction with Cumbria County Council, Agilisys and Citizens Advice, will operate a pilot in the North West of England. Four Citizens Advice Bureaux will provide the F2F advice.
- A4e[8] will operate a pilot in London, South Yorkshire and Staffordshire. Experienced advisers will provide the F2F advice in London and Staffordshire.

Testing variables

3.32 The Review has drawn out four variables from the evidence gathered so far to test in the pilots:

1. ways of delivering information and guidance, in terms of the channel (telephone, Internet and F2F) and the interaction between them, as well as the effectiveness of each in meeting GFA aims;
2. the style and tone for delivering the information and guidance – scripted and unscripted approaches to delivering information and guidance over the telephone;
3. assessing the relative effectiveness of different types of adviser – the pilots will compare the relative effectiveness of FSA-qualified advisers versus advisers with less financial knowledge; and
4. ways of engaging the potential users of the service, including those most vulnerable to the consequences of poor financial decision-making.

Advice channel and tone

3.33 Chapter 1 showed existing providers successfully using a wide variety of channel strategies, ranging from web to F2F. The evidence does not point conclusively to one particular mix being the right answer.

3.34 The Review is therefore piloting three channels of advice, telephone, web and F2F, in order to identify the most appropriate mix of media for meeting the GFA needs of different groups of people. The pilots will help to draw out actual behaviour, including people's channels of first choice for different questions and how they move between channels, as opposed to people's stated preference for channels.

[7] www.consumerdirect.gov.uk
[8] www.a4e.co.uk

Adviser skills 3.35 The Review's investigation of the current advice provision in Chapter 1 demonstrated the successful use of a wide range of approaches to delivering information and guidance over the telephone and F2F; from prescribed advice through to coaching or counselling over the telephone. The prescribed end of the spectrum utilises scripting and decision trees, whereas counselling can be more flexible and customised to the user's need. Each has its merits with regard to risk, consistency and relevance to individuals. For example, scripting telephone calls can allow the service to control the quality and consistency of advice as well as the length of call to some degree. Basic scripted advice can be delivered by less-skilled advisers.[9]

3.36 There are effective versions of each approach; therefore, the intention is to pilot the different approaches in context, using both skilled and less-skilled advisers. This will enable the Review to understand the most effective way of delivering advice in terms of the appropriate skill level for delivering GFA and whether this depends on the person, the issue or the channel; also the user's and adviser's experience of using scripts, the user's understanding of GFA and the prompt to take action.

Engagement 3.37 The Review's observations in Chapter 1 showed that the most successful current advice providers have trusted brands, which are associated with services of a particular kind. Impartiality and a sense of "on my side" are the most appealing characteristics. The pilots will test out a process for engaging people in GFA, including those most vulnerable to the consequences of poor financial decision-making, using a variety of techniques described in Chapter 2; for example, local radio and press, trusted intermediaries and referrals. The Review's consumer focus groups highlighted the potential importance of the service being free at the point of use.[10] The pilots will therefore test two telephone numbers: 0800 (free) and 0844 (local rate). Evaluation will help the Review determine whether the perceived cost of a call is an inhibitor to using the service.

Advice topics 3.38 The advice topics covered by the pilot service will be based on consumer research findings of the issues that people want to address through a GFA service and the Review's analysis of the gap in advice provision: jargon busting, managing debts and budgeting, savings and mortgages, planning for retirement, protection, and understanding taxes and state benefits. For practical reasons the pilots have restricted the breadth of advice to seven advice topics, plus jargon busting. A national GFA service could employ a similar approach, starting small and working up to provide the full range of topics identified in paragraph 3.3.

Advice protocols 3.39 The pilots are using "advice protocols" to ensure the information and guidance provided is consistent and meets the parameters of GFA as described in the box at paragraph 3.8. The protocols build on the Financial Services Skills Council standards,[11] by setting out in practical terms, how far the information and guidance can go within the parameters of GFA. The direction and underlying principles within each protocol were developed in conjunction with industry and consumer groups. Protocols represent one way of ensuring quality and consistency of advice and mitigate against the risk of compensation or complaints.

[9] For example, NHS Direct uses scripting as part of its clinical decision support software, in the form of algorithms. This enables the less complex queries to be dealt with by advisers with less experience and knowledge, leaving highly trained staff to deal with complex queries.

[10] Annex 2 – *Summary of responses from the consumer focus groups*, Value Engineers, is available at http://www.hm-treasury.gov.uk/independent_reviews/thoresen_review/thoresenreview_index.cfmas

[11] Approved national occupational standards for providers of generic financial advice establish a set of core skills and competences for those who engage in this activity, whether in the private or not-for-profit sector. Available at http://www.fssc.org.uk/cgi-bin/wms.pl/Standards_and_accreditation/278

Alternative saving accounts 3.40 Following a recommendation in the Pomeroy Review of Christmas savings schemes to consider how and whether GFA could be given on "alternative savings accounts", the savings advice protocol will cover the pros and cons of different options for savings, including alternative saving schemes. The Review would not expect questions prompted by saving, in particular saving into alternative savings accounts, to raise fundamentally different issues than questions about other types of savings vehicles. Advice protocols will cover the pros and cons of different savings accounts and the risks associated with each.

3.41 The protocols will test the boundary between GFA information and guidance and regulated advice, the balance between reactive queries on existing products and queries about new needs. The development of the protocols will be an iterative process, following feedback from advisers and users, so it is intended that the advice protocols will be published in the Review's final report.

"Hybrid model" 3.42 The pilots will test out elements of the partnership approach which will provide evidence that could validate the Review's theoretical analysis of the pros and cons of this model. For example, Consumer Direct is managing the telephone-based advice in one pilot, and has entered into a formal partnership with the Citizens Advice Bureaux to provide the F2F advice channel. In the other pilot, A4e will test out a number of informal partnerships and hand-off or referral arrangements with local intermediaries, such as colleges, GP surgeries and employers. Advice protocols will test the hand-off and referral process from GFA to specialist financial advisers in the regulated sector, and specialist agencies such as National Debtline and The Pensions Advisory Service.

Commercial role 3.43 In the time available, the Review recognises that the pilots will not develop a fully fledged hybrid service delivery model. The hybrid model allows the commercial sector to become involved as a provider of services either as, or on behalf of, the main organisation under a contractual arrangement or as a jointly labelled accredited partner. Trialling the delivery of GFA in a commercial setting would help test the balance between a service which is impartial from government and industry and does not serve any special interests, and the interface with regulated advice and the sales process. The practical difficulties of setting up a trial in a relatively short period have meant that we are unable to test this element of the model. Recognising that the financial services industry already provides elements of GFA either in a bank branch or on websites,[12] the Review will aim to learn from this work to gain a greater understanding of the pros and cons for users and the industry if the service were to be available in a commercial environment. Findings will be covered in the final report.

[12] Examples of GFA available on the websites of financial services industry include www.makesenseofit.com/Investments produced by Norwich Union and www.rbs.co.uk/moneysense produced by Royal Bank of Scotland. Additionally, several banks, building societies and credit unions are taking part in a pilot to distribute the FSA's *Money Made Clear* guides in branches.

EVALUATING THE PILOTS

3.44 The pilots will be independently evaluated using the following research methods:[13]

- Qualitative research among the users of the service, the advisers and professional observers. For example, professional observers will be asked for their views on the appropriateness of the advice, compliance with the scope of GFA and future hand-offs to the commercial and third sectors.
- Quantitative market research, for example, a control sample of 1,000 people, chosen to match the user of the pilot service in terms of demographic and vulnerability profile, will be surveyed to help assess whether the users of the pilot are different from the non-users in other ways.
- Analysis of management information (MI) collected by the pilot contractors will help to identify, for example, the profile of users of the service, response rates to different marketing media, frequency of different advice requests, frequency and nature of hand-offs to third sector providers and the frequency and nature of opportunities for hand-offs to the private sector.

3.45 The pilots represent a testing ground for many of the hypotheses and assumptions in the evidence set out in the interim report. Some have rightly described the pilots as testing out a "prototype" based on the fact that the pilots are not a regional trial of a national service. Some elements of a national service will be untested and certain questions will go unanswered. For example, the pilots will not test out the full range of marketing techniques described in Chapter 2. In recognition of this potential limitation, the Review will carry out further research on the practical mechanisms or key triggers that could ensure people engage with a proposed GFA service, particularly those who could benefit most from GFA.

3.46 The main benefit of running practical tests is to gain experience that will help to inform the next phase of research. What the Review can do at this stage is test hypotheses and draw sensible conclusions.

CONCLUSION

3.47 This chapter has set out some of the key building blocks for the design of a national system of GFA. It has described two important issues where the Review has developed its thinking. First, a working definition for the parameters of GFA has been described. The Review believes that its vision for a national approach can be delivered without changing the current regulatory framework of FSA and Consumer Credit Act legislation. Clearly, if the evidence from the pilots changes this view, the Review will make recommendations on what changes to the regulatory landscape may be required, if any.

3.48 Second, this chapter has set out the Review's preference for delivering a service through a "hybrid" or partnership model. The Review does not assume that this will be the simplest option. In some respects it poses greater challenges to the organisation and individuals that will ultimately have to build the service. External partners are crucial to success of the hybrid approach. The central body would have to manage a complex network of partnerships and external relationships, some contractual, some more informal. This will take considerable skill. However, based on the

[13] The Review's final report will include an assessment of the findings from the pilots.

conclusions from Chapter 1, the Review believes that the introduction of some kind of strategic oversight and coordination on the current web of overlapping services could deliver considerable benefits to the customers who have to negotiate this maze. The hybrid approach offers a solution that could, over time, result in greater coherence of provision, reduce duplication and ensure the most effective use of resources.

3.49 The pilots represent a testing ground for many of the hypotheses and assumptions set out in the rest of this interim report. Recognising that the Review cannot answer every question about creating a national service, and that the pilots will not test every element, this chapter has considered the necessary next steps in developing the evidence base for understanding the real "nuts and bolts" of what a national GFA service might deliver. The experience the Review gains from this phase of piloting should inform later testing. These pilots represent the first step in the design of a national GFA service.

NEXT STEPS

3.50 Some further work is required in the following areas:

- Ensuring the accuracy, quality and consistency of information and guidance provided by GFA and any external partners will be key to the success and credibility of the GFA "brand" and will help reduce the risk of complaints and compensation claims. The Review therefore anticipates that an accreditation or "kitemark" scheme of some sort is likely to form part of a hybrid model. The final report will look at accreditation and training in more detail.
- Consideration of the design of a hybrid service model in more detail. This will include the implications of the Varney Review recommendations on service transformation[14] and the role of the commercial sector as a provider of GFA services, either on behalf of the main organisation under a contractual arrangement, or as a jointly labelled accredited partner.
- To further its understanding of the real "nuts and bolts" of what a national GFA service might deliver, and the commercial sector's role in providing GFA, the Review will continue to learn from the provision of GFA by the third sector, such as the Citizen's Advice Bureaux MoneyPlan pilots,[15] the commercial sector, such as the AXA Avenue pilots and the initiatives being undertaken in the banking sector.[16] In addition it will learn from wider research evidence such as the impact of pensions information on saving and planning behaviour.[17]

[14] Sir David Varney was asked by the Chancellor to advise him on the opportunities for transforming the delivery of public services. His review of service transformation looks at how the channels through which services are delivered can be made more efficient and responsive to the needs of individuals and businesses. See http://www.hm-treasury.gov.uk/pre_budget_report/prebud_pbr06/other_docs/prebud_pbr06_varney.cfm

[15] The Moneyplan pilot, supported by Barclays and AEGON, provides Independent Financial Advisors in Bureaux to deliver GFA on insurance, savings, mortgages, pensions and financial planning. See http://www.citizensadvice.org.uk/index/publications/financial_capability_publications.htm

[16] The AXA Avenue study provided 10 households with access to an IFA for 12 months (see www.axa.co.uk/avenue). See also the retirement planner, Six Steps, produced by AVIVA http://www.six-steps.org.

[17] See DWP research summaries at http://www.dwp.gov.uk/asd/asd5/summ_index_2007_2008.asp

QUESTIONS

The Review would be interested to hear views on the following questions:

1 Have we identified the appropriate parameters for GFA? What evidence exists to support a case for a “deeper” service?

2 What sort of accreditation and training would be the most effective way of ensuring accuracy, quality and consistency of GFA information and guidance?

3 Views on the organisations which could play a role in the hybrid model, either on behalf of the main organisation under a contractual arrangement, or as a jointly labelled accredited partner?

4 How could commercial providers benefit from delivering GFA in their premises? For example, does the delivery of GFA in a commercial setting improve the levels of motivation to take action and execute a plan?

4 Governance

Summary

Having considered what the "look and feel", scope and high-level design criteria for a generic financial advice (GFA) service should be, this chapter looks at the practical implications of how to deliver a service along the lines of the hybrid model described in Chapter 3. It examines:

- where the organisation should sit in relation to government;
- what legal structures are available for delivering it;
- whether a new organisation would be needed to deliver a national GFA service, or whether it could be delivered through an existing organisation.

The Review does not make firm recommendations on these issues. But we identify some factors which will necessarily narrow the range of options.

- Some governance models would require legislation and therefore could not be implemented quickly. If primary legislation (i.e. an Act of Parliament) were needed, this would mean a period of at least 18 months between the decision to legislate and a new body coming into operation.
- Some governance models would constrain choices when considering funding options. This is discussed more fully in Chapter 5.
- Some governance options might not be applicable across the whole of the UK: this could be a constraint if a single UK-wide delivery body were seen as highly desirable.

The approach for this interim report will be to identify the governance options that appear best equipped to deliver the required service. We will not rule out at this stage models that could deliver effectively but may present technical difficulties.

Some features will be common to any organisation, whatever their relationship with government or its legal structure. All models would need a Chair to be the public face of the organisation, and some form of Board – a collection of individuals to be responsible for the strategic approach. There will need to be a constitution determining how the Chair and Board are appointed. The details of these arrangements are not something that can sensibly be discussed at this stage. But they could in practice have a significant impact on how the organisation – whatever its technical legal status – is perceived by the public and key stakeholders such as the financial services industry, the third sector and the Government.

SECTION 1: RELATIONSHIP WITH GOVERNMENT

4.1 Chapter 3 concluded that a key principle for a GFA service was that it should be impartial from the Government and the financial services industry and "on the user's side". This section describes the institutional arrangements that could be used to deliver such a service in terms of their distance from government and how these arrangements measure up against the need for impartiality.

Executive agencies

4.2 Executive agencies are part of central government departments. Their characteristics tend to be that they:

- are clearly designated units within departments which are responsible for executive functions of government rather than policy advice – sometimes called the "delivery arms";
- are independently accountable within their department: they must be capable of having agency-specific targets and must produce separate annual reports and accounts; and
- must be financially viable – i.e. adequately resourced to achieve their targets – at the time they are launched.

4.3 Examples of executive agencies are The Pension Service and Jobcentre Plus. These are both executive agencies of the Department for Work and Pensions and administer the Department's benefits and other services for older people and working-age people respectively.

4.4 This closeness to government means that a new executive agency would be unlikely to meet the impartiality and "on my side" consumer test. The feasibility of this option would also depend on the match between the desired functions of the new agency and the functions, powers and geographical remit of the proposed parent department. In the case of a GFA body, its scope is likely to stretch beyond the remit of any one department's interest in advice. But there could be administrative advantages, as this approach is unlikely to require legislation.[1]

Independent public bodies

4.5 Public bodies and executive agencies may often appear very similar. But unlike executive agencies, public bodies are not part of a government department; they carry out their functions to a greater or lesser extent at arm's length from central government. Ministers are ultimately responsible to Parliament for the public bodies sponsored by their departments and in almost all cases make the appointments to their Boards. Departments are responsible for funding and ensuring good governance of their public bodies. The main reason for delivering a function through a public body is that although the function is generally appropriate to "government" in its broadest sense, a degree of independence from ministers and policy is considered necessary.

[1] At least so far as actually putting the body in place is concerned. It might not be the case for revenue–raising powers – see Chapter 5.

Examples of public bodies

The Pensions Advisory Service (TPAS)

TPAS is an independent voluntary organisation, established as a company limited by guarantee, whose mission is to provide high-quality advice about pensions in a cost-effective way, free of charge to members of the public who have either a general or specific query or complaint on a pensions matter, and to publicise areas of concern arising out of its experiences. It is funded by a grant in aid from the Department for Work and Pensions, raised by a levy on occupational and personal pension plans (the same levy that funds the Pensions Regulator).

Personal Accounts Delivery Authority (PADA)

The Pensions Act 2007 established a new non-departmental public body, the Personal Accounts Delivery Authority. Initially, the authority's remit is limited to:

- providing advice, supporting Government in understanding the operational and commercial implications of the options for delivering personal accounts; and
- taking forward preparatory work on the design of the commercial strategy, including the financial, technical and commercial analysis needed for scheme development.

The Government plans to legislate further in a second Bill, extending PADA's remit, enabling it to oversee the establishment of the infrastructure and processes for Personal Accounts within a framework set by Government.

4.6 It is clear from the customer response to TPAS and other public bodies, such as NHS Direct, that, given appropriate marketing and branding, a public body can meet the impartiality and "on my side" consumer test. Public bodies can also deliver all the possible functions of a generic advice service identified at the beginning of this chapter. In particular they can, given statutory authority, distribute government funds and raise a levy. They are also particularly suited to the advisory function, were this to be a function of a GFA body. Indeed, many public bodies exist solely to provide the Government with independent advice.

4.7 Establishing a public body which will have an executive, as opposed to a purely advisory, function generally requires primary legislation to give the body the necessary powers: this would have implications for the implementation timescale. If primary legislation were needed, a period of at least 18 months would have to be allowed between the decision to legislate and the new body coming into operation, although there are mechanisms that could enable a "shadow" body to start some activity before this.

4.8 As with an executive agency, the operational feasibility of this option would also depend on the match between the desired functions of the new public body and the functions, powers and geographical remit of the proposed sponsor department.

4.9 Being a public body imposes a specific set of government accounting and accountability requirements on the way an organisation is run, in addition to any requirements which derive from the private law legal status of the organisation. The sponsor department must have a mechanism for asserting an appropriate degree of control over the body, especially in financial matters and in relation to issues of ethics in the use of public funds.[2]

[2] See *Managing Public Money*, Annex 7.2 (paragraph A7.2.7), HM Treasury, 2007.

4.10 Some public bodies derive their powers and constitution solely from statute, but others take one of the legal forms that may also be used by purely private organisations. For example, it is possible for a public body to be set up as a company limited by guarantee,[3] which may also have charitable status.

Third sector organisation

4.11 The "third sector" consists of organisations which are established on a not-for-profit basis, and are not controlled by the Government. It includes voluntary and community sector organisations, including charities[4] and grant-giving foundations, most cooperatives and social enterprises, and private clubs and societies. Many of the organisations described in Chapter 1 of this report are part of the third sector.

4.12 A third sector body could be set up without legislation and could carry out most of the functions required of a GFA service, but its financial base would be likely to be less secure than that of an executive agency or a public body. It could not levy compulsory contributions and so would depend on government grants and private donations. A third sector body could not have a formal policy advisory function, although there would be nothing to prevent it conducting research or submitting informal advice.

4.13 The Government cannot force the creation of a new third sector organisation. If a GFA service were to be delivered by a new third sector organisation, a group of individuals or organisations would need to be persuaded to set it up. It is possible to envisage a GFA service being forged by the coming-together of a range of stakeholder groups, with a Chair and Board drawn from high-profile individuals commanding the trust of government, the financial services industry and the public. This would be a novel and untried approach for a national service, and would depend for its success on the commitment of a sufficient number of appropriate stakeholders.

4.14 A third sector solution could be attractive to private sector partners or donors. It would enable them to gain brand recognition and goodwill from association with the work of the body, particularly at local level.

A commercial private sector organisation

4.15 It is difficult to see how an impartial national GFA service that was available to all could be operated on a profit-making basis. This is not to deny the value of the work done by the private sector organisations described Chapter 1, or to exclude the private sector from a role as a partner in a "hybrid" delivery model. The Review is exploring how a range of commercial organisations could work in partnership with the service, whether as contractual providers of outsourced services or as accredited partner-providers.

SECTION 2: POSSIBLE LEGAL STRUCTURES

4.16 Having considered the options for where a GFA service might sit in relation to government, this section describes the main legal structures that could be used to deliver the service and the constraints those structures might impose on the way the service could operate.

Statutory corporations

4.17 Most executive public bodies require legislation, in order to confer functions on the body and also for reasons of government accounting. The legislation will often both create the body and set out its basic governance rules and related matters. Bodies established by legislation in this way are known as statutory corporations. However, legislation is sometimes used to confer new functions on existing bodies.

[3] See paragraph 4.18 below.

[4] See paragraphs 4.21 to 4.26 below.

A limited company

4.18 A limited company is the most common structure for commercial organisations. This status is also appropriate to some non-commercial bodies. Limited companies are organisations which have a legal identity that is separate from the individuals which own and run them. There are three types:

1. A private company limited by shares: If a limited company becomes insolvent, its shareholders will only be liable to contribute the amount remaining unpaid on their shares (usually nothing, as most shares are issued fully paid).
2. A private company limited by guarantee: This type of company does not have share capital but is guaranteed by its "members", who agree to pay a fixed amount (often a nominal £1) if the company becomes insolvent. Charities often use this model. The Financial Services Authority (FSA) is also a company limited by guarantee.
3. A public limited company: Shares in a public limited company can be publicly traded on a stock exchange.

4.19 The scope of a company's activities is determined by its memorandum and articles of association, any specific legislation (such as the Financial Services and Markets Act 2000 in the case of the FSA) and other law such as charity law for companies with charitable status. In some scenarios, a limited company could provide the appropriate legal form for a GFA service: whether it will in fact be the appropriate form is not something that needs to be discussed further at this stage.

Community interest companies

4.20 Community interest companies (CICs) are a relatively new development in the third sector. They are limited companies with special additional features, created for the use of people who want to conduct a business or other activity for community benefit, and not purely for private advantage. This is achieved by a "community interest test" and "asset lock", which ensure that the CIC is established for community purposes and that the assets and profits are dedicated to these purposes.[5]

Charitable status

4.21 A charity is a body or trust which is set up exclusively for charitable purposes – as defined in the Charities Act 2006 – which provides benefit to the public. Charities may be incorporated (generally as a company limited by guarantee) or unincorporated (i.e. operating under the terms of a trust deed or rules of association).

4.22 Whether or not an entity is legally a charity will depend on its express purposes and powers and, to some extent, the arrangements for its governance and management, as set out in its governing instrument. Charitable status is inherent and, unless exempt, a charity is required to be registered with the Charity Commission. If a body is a charity, it and its Board (as charity trustees) are subject to the requirements and restrictions of charity law.

4.23 Charity law constrains a charity's room for manoeuvre in some areas: in particular, all its activities have to remain within the bounds of the charitable purpose and public benefit tests. But charities also benefit from preferential tax treatment.

[5] More information is available at http://www.cicregulator.gov.uk/

4.24 There are many charitable organisations which provide some form of GFA service, or support work to promote financial capability. A number of foundations established by major financial institutions are also directly involved in financial capability projects or make grants to other charitable organisations working in this field. The Government also makes grants to many charities, including some providing GFA-related support: for example, Citizens Advice[6] receives most of its funding from central and local government.

Charities working in the area of GFA

pfeg (Personal Finance Education Group)

pfeg is an educational charity whose mission is to make sure that all young people leaving school have the confidence, skills and knowledge in financial matters to take part fully in society. It is one of the key delivery channels for the FSA's National Strategy for Financial Capability. It receives support from education, business and government (including the Department for Children, Schools and Families and the FSA) and works at a strategic level with schools across the UK to promote the development of financial capability.

pfeg supports UK teachers working with children and young people aged 4 to 19, offering a range of advice and resources suitable for pupils of all ability levels, as well as reflecting different social, economic and cultural backgrounds. Its activities include a comprehensive website, the pfeg Quality Mark (a kitemarking scheme to ensure that resources are educationally fit for their purpose), and offers consultancy support and advice to schools and local authorities, including in-service training. It has a budget of around £5 million for 2007-08.

HBOS Foundation

The HBOS Foundation is a registered charity which supports a range of initiatives to address the financial literacy needs of a number of groups across society: for example, deprived communities, young adults, refugees and homeless people. Its income comes from a variety of sources through HBOS plc, which also pays all the overheads, including staff costs, for the Foundation. As well as multi-year grants, the Foundation also arranges for HBOS staff to volunteer with these charities. In 2006, HBOS financial support to the Foundation was £8 million. The Foundation frames its financial literacy work around the FSA's National Strategy for Financial Capability.

Charities and public bodies

4.25 Although charities are generally thought of solely as part of the third sector, charitable status and public body status are not mutually exclusive: for example, many publicly funded art and culture institutions, such as the British Museum, are both public bodies and charities. A charity can be set up to carry out a function of government where there is a charitable purpose that coincides with the governmental function. If charitable status is sought for a public body this will entail compromises in terms of the control that the department or minister can exercise over its activities.

4.26 It is not possible to state categorically that a public body set up to deliver GFA would also have a charitable purpose. If the Government wanted the new body to have charitable status, having weighed up the pros and cons, it would have to seek advice on whether the body would have a charitable purpose, once its functions, powers and governance arrangements were clear. It would also have to consult the Charity Commission at an early stage.

[6] Described in Chapter 1, paragraph 1.18.

Conclusion

4.27 This examination of the institutional options and legal structures available, assessed against the principle of impartiality, suggests that if a new organisation is to be set up to deliver a national approach to GFA, the most appropriate mechanism would seem to be some form of public body. This is supported by previous research on the feasibility of implementing a national GFA service, which indicated a preference among stakeholders for the creation of a new independent organisation to deliver the service.[7]

4.28 A public body could:

- operate at a sufficient distance from government and the financial services industry to meet the impartiality test;
- carry out all the functions that might be required of a national GFA service on a hybrid model;
- if given appropriate powers, impose a compulsory levy or fee to ensure it has secure funding.

But it would take time to implement as it would almost certainly require primary legislation.

SECTION 3: IS A NEW ORGANISATION NEEDED?

Cabinet Office guidance

4.29 The preceding section acknowledged that there was some attraction in other options, particularly in an approach using the third sector. This section considers whether the balance of argument for the public body solution would be different if the service were delivered by an existing organisation rather than set up from scratch. This step is also necessary in view of Cabinet Office guidance[8] on public bodies, which advises policy-makers to consider other options before concluding that a new service or function should be delivered by a new public body. Alternative mechanisms could include:

- an existing government agency;
- an existing public body;
- an existing third sector organisation; or
- the private sector.

4.30 In this case the private sector option can be relatively quickly dealt with. As already indicated, there are a number of commercial organisations which could provide elements of the service as contractual or accredited partners; but this is a different proposition to providing the public face of the organisation itself. This would not only be problematic in terms of the impartiality of the service, but could also jeopardise the organisation's existing commercial activities.

Case for an existing organisation

4.31 However, there could be practical advantages to choosing an existing body – whether government agency, public body or third sector organisation – to deliver the new service, rather than creating a completely new organisation:

- Using existing infrastructure could allow for speedier implementation of some of the elements of the service – although it would not necessarily rule out the need for legislation. This would depend on the match between existing powers of the organisation in question and the desired powers of the GFA service.

[7] *Closing the advice gap: Analysis of consultation responses*, Resolution Foundation, January 2007.

[8] *Public Bodies: Guidance for departments*. See http://www.civilservice.gov.uk/other/agencies/guidance_for_departments/pb_guidance/index.asp

- It could reduce both start-up and running costs if the new service could be delivered, in part, through spare capacity within the "host" body and share services and overhead costs with it.
- It could allow the new service to capitalise on an existing successful brand rather than having to create an entirely new identity for the service. If there were an existing brand that had already established a suitable identity in the public mind without being a public body, this could overcome the objections that might apply to that particular governance model for a new organisation.
- Using an existing organisation could allow the new service to benefit from the "host" organisation's existing network of partnerships and stakeholders.

4.32 Chapter 1 identified many organisations in the public and third sectors whose missions could encompass the aims and objectives of a GFA service and which are already providing elements of GFA, for example by providing help with general budgeting as a corollary to the first-order need of debt advice. It may be that some such organisations have, or could develop, the capacity to scale up this element of GFA to deliver a service on a national scale. The Review recognises that this would require "brands" to be stretched to meet the GFA needs of new types of customer. We will examine this question further in the next phase of our work. We would be interested to hear from organisations or individuals with a view on this issue.

CONCLUSION

4.33 This chapter has looked at the range of institutional and legal models that could be used to deliver a GFA service on the hybrid model described in Chapter 3. It has examined:

- where the organisation should sit in relation to government;
- what legal structures are available for delivering it; and
- whether a new organisation would be needed to deliver a national GFA service, or whether it could be delivered through an existing organisation.

4.34 It has discussed the possible legal structures for the central organisation within a hybrid model. It concluded that if a new organisation were to be established, the most appropriate option would appear to be some form of public body. This would be most likely to provide the required degree of impartiality and flexibility of action, although legislation would be needed to set the body up.

4.35 It has also identified some possible advantages of delivering a GFA service through an existing body with a "brand" that is capable of being widened to encompass the objectives of a GFA service. An existing brand which already had the right "look and feel" for a GFA service need not be a public body, although the practical considerations flowing from using a body outside the public sector would still need to be addressed.

4.36 The next chapter analyses the cost ranges of a national GFA service delivered via a hybrid model, and describes the range of possible funding mechanisms. As has been indicated in the discussion of the various legal structures which could sit at the heart of the service, not all possible funding mechanisms will apply equally to all governance structures. Governance and funding are, to a certain extent, interdependent and final recommendations will reflect this.

NEXT STEPS

4.37 The Review has so far proposed a conceptual design model for a GFA service – which we have called a hybrid model – and analysed the institutional and legal structures available for establishing a service based on a hybrid model. We shall continue this analysis, in particular by examining the options for delivering the service via an existing organisation. In doing this we will take into account any views expressed on the questions below.

QUESTIONS

1. Should a GFA service be delivered by a new organisation, and if so should that organisation be a public body?
2. Should a GFA service be delivered by an existing organisation – not necessarily a public body – with an established "brand" that is capable of being widened to encompass the objectives of a GFA service?
3. Which existing organisations should be considered candidates for scaling up capacity and expanding their brand to deliver the vision of GFA set out in this report?

5 Costs and funding

Summary

This chapter:

- examines a range of possible costs of delivering a national approach to generic financial advice (GFA) using the hybrid service delivery model;[1] and
- considers options for funding the service.

The discussion draws on work commissioned by the Resolution Foundation[2] which has, over the past two years and more, undertaken a considerable research programme into the feasibility, costs and benefits of a national GFA service. The Review has in addition commissioned its own initial high-level cost benefit analysis (CBA) from PACEC (Public and Corporate Economic Consultants), which also informed the analysis in this chapter. Their report is reproduced in full in Annex 5.[3]

In discussions on the level of funding needed, the figure of £50 million a year has frequently been mentioned. This figure represents the mid-point on a range of costs developed in work by the Resolution Foundation and has been useful as a starting point for debate. But it is important to stress that the Review has not – and, indeed, cannot – come to a view at this stage on the actual funding requirement.

The discussion focuses on the operating costs of a "steady state" service. In practice, there would also be costs associated with the set-up of the service, which are not analysed in this report.[4]

It should also not necessarily be assumed that steady state operating costs would be reached in year one or two of the service. It is entirely possible that the introduction of a national service could be preceded by regional or local piloting; and that the topics covered, or the delivery channels offered, by the national service could be introduced using a phased approach.

The economics of delivering GFA nationally will be affected by whether the service is able to recover any of its costs through charges to users. The scope for this is not considered here. Evaluation of the pilots will help determine whether the perceived cost of a call is an inhibitor to using the service.[5]

SECTION 1: COST OF A NATIONAL APPROACH TO GFA

5.1 The cost of any GFA service will depend on:

- the depth and scope of the service provided;
- the channels used; and
- the volume of activity.

[1] For discussion of the arguments on this see Chapter 3, paragraph 3.13.

[2] www.resolutionfoundation.org

[3] Available at http://www.hm-treasury.gov.uk/independent_reviews/thoresen_review/thoresenreview_index.cfm

[4] Possible set-up costs are discussed in the CBA. Clearly they would depend on a number of factors including the model used and whether or not the service were delivered by an existing organisation.

[5] The pilots will test two telephone numbers: 0800 (free) and 0844 (local rate).

5.2 As explained in the previous chapters, the Review has yet to form its final conclusions and recommendations on these issues. The consumer pilots described in Chapter 3 will test a range of channels and, as explained below, this will affect assessments of the range of costs. More work is still needed to form a view on the most appropriate mix of channels for meeting the GFA needs of different groups of people and assess likely level of use, building on the principle of a GFA service available to all, but with effective targeting at those who need it most.

5.3 Despite the uncertainties, it is possible to make some assumptions about the channel mix and level of usage, and to apply these to the unit costs of delivering advice via a range of channels, and to the relatively fixed costs that will apply on all assumptions. This enables us to set out a broad range of costs for operating a service using the hybrid delivery model described in Chapter 3.

Elements included in costings

5.4 To deliver a service based on a hybrid model operating at the decentralised end of the spectrum, funding will be required for the following activities or structures:

- A central body with a relatively slimline headquarters (HQ) function responsible for:
  - setting the strategic direction for the service as a whole (including contract and relationship management);
  - branding and marketing – including the maintenance of web-based advice tools and facilities and production of traditional printed publicity and information materials;
  - maintenance of the advice protocols and managing crisis response;
  - a process or system, such as a "kitemark" scheme, to ensure accurate, high-quality, consistent provision of GFA information and guidance by accrediting approved delivery partners; and
  - (possibly) acting as formal providers of policy advice on GFA to the Government.
- A telephone advice service, which could be provided within the central organisation and/or by external partners. In either case it could be provided in-house or outsourced.
- Face-to-face (F2F) support, mostly, if not entirely, delivered through external accredited delivery partners.

5.5 Some of the funding needs identified below will therefore be shared across the central body and its external partners. Over time, this may offer scope for economies of scale and rationalisation. These issues can only be explored once the central delivery body is in place. The figures also assume that all the GFA activity provided through the new organisation and its partners is additional: they do not attempt to identify whether the level of service required could be delivered partly within existing capacity. Nor do they consider other possible financial impacts on existing services.

5.6 In the short term the availability of GFA could lead to increased referrals to existing services, driving costs up. But in the longer term it is be hoped that increased financial capability would reduce the need for crisis interventions. The existence of a GFA service would also provide crisis organisations with a referral mechanism for "non crisis" issues, allowing them to focus on their primary client group.

Cost of central functions of a GFA service

Cost of the HQ function

5.7 However a GFA service is positioned in relation to government and whatever its legal status, it will need some form of central strategic hub. An HQ is needed to set the strategic direction for, and be the public face of, the organisation. Staff will be needed to manage any services delivered internally, and to manage contractual and other relationships with delivery partners where services are delivered externally. There will be costs associated with accommodation and support functions such as human resources and information technology (IT), even where these are outsourced.

5.8 The CBA produced a range of costs for the HQ and other elements of a set of very specific models based on the Resolution Foundation's work. None of the models costed is a precise fit with the hybrid model described in Chapter 3, though they are all based on varying combinations of the delivery channels that feature in the hybrid model. The Resolution Foundation/CBA allocate a constant £0.6 million to staff costs for all the models and levels of use considered, as well as a constant £0.2 million for "content maintenance" for the external website and advice protocols. They allocate sums between £0.1 million and £0.6 million, depending on the model, to ongoing recruitment and training by HQ staff. This arrives at a range for the "strategic" element of the HQ function of £0.9 million to £1.5 million.

5.9 None of the CBA HQ models fully reflects the potential staff costs of supporting and managing relationships with an extensive nationwide network of partner organisations. These costs could be considerable: for example, Citizens Advice employs a team of 20 information officers to maintain "AdviserNet", its Internet-based information source for advisers in its local bureaux.

5.10 The Review considers that the CBA's assessment of the strategic element of the cost of the HQ function is too low. We have considered the cost and scale of the HQ function in a range of other organisations. For example, The Pensions Regulator (TPR) has a budget of around £27 million a year and 300 staff, of which between 30 and 50 could be described as carrying out the HQ function. A pro-rata split suggests that an HQ of 50 staff would cost around £4.5 million a year – around £90,000 a head including all overheads. Consumer Direct has an HQ staff of 20 to deliver its national telephone advice service.

5.11 The evidence leads the Review to believe that a national GFA service should initially think in terms of an HQ organisation of around 20 to 30 people and that this could be delivered for between £2 million and £3 million a year. The cost ranges in Table 5.1 allow a fixed amount of £3 million – the upper end of this range – for the HQ function in all models. This would cover the human capital and associated support costs (accommodation and so on) for the ongoing strategy, branding and marketing, and content development and maintenance elements of a national GFA service. It also reflects the needs of the early years of the service when the delivery network is being developed and the initial marketing and relationship-building push is underway. This level of funding would also probably cover the provision and maintenance of the web-based GFA tools and some traditional printed publicity material. The cost of the main branding and marketing effort is considered separately in paragraphs 5.12 to 5.14.

Marketing and branding

5.12 The salaries of some staff working on communications, branding and marketing issues – including maintaining a website – would be covered within the HQ budget, but this would not meet the cost of the main marketing effort. If this were on a similar scale to other major public information campaigns, the cost could be considerable. The work by the Resolution Foundation estimated costs of between £5 million and £10 million a year for marketing in the form of advertising. PACEC, in their CBA, describe a variety of examples of public information marketing campaigns with costs ranging from £5 million to £30 million.

Examples

- In 2005–06 (before the introduction of KiwiSaver), the New Zealand Retirement Commission had a budget equivalent to around £30 million a year when adjusted for UK prices and roughly scaling up for the bigger UK population. Around 75 per cent of this budget is spent on adverting – especially targeted TV campaigns and online. TV advertising is the key source of awareness of the "Sorted" money advice website.[6]
- The UK flu jab awareness campaign costs £2.5 million a year.
- The UK Think! national awareness campaign, focusing on road safety, costs £14 million a year centrally, supplemented by an additional £20 million spent on road safety issues at local and county level.

5.13 As discussed in Chapter 2, large publicity campaigns are not the only way of promoting engagement with a service or issue. Viral marketing and trusted intermediaries can be effective at persuading people to engage. For example, the bulk of Consumer Direct's publicity and marketing is targeted locally, working with the eleven regional call centres, and relies on working with local partners and advertising in local rather than national publications.

5.14 Further research on branding and marketing, including cost ranges, is planned before the final report. But it seems clear that a GFA service will need a marketing strategy that strikes a balance between high-level (and high-cost) national messaging and awareness activity, and targeted local engagement strategies. The latter may take considerable skill and time, but be relatively inexpensive. The logical conclusion is that the marketing spend will, at least initially, be towards the higher end of the PACEC range. In the medium to long term, the costs incurred by the central body will also depend on the extent to which external partners can share responsibility for disseminating key messages. Taking all this into account, the calculations underlying the illustrative costs in Table 5.1 include £10 million a year for branding and marketing.

An accreditation function

5.15 The CBA assumed that the operation of an accreditation scheme for external providers would be covered within the HQ funding envelope. This function is not discussed in detail here. It will be covered in the final report, incorporating lessons learned from the pilots about the qualities that will be needed in accredited delivery partners and our own research on the options for an accreditation scheme. It is, however, worth noting that many organisations observed by the Review during our research and evidence-gathering phase charge those applying for accreditation or registration, the aim being that the accreditation process should as far as possible be self-funding.[7]

[6] Alison O'Connell, submission in response to Call for Evidence and *Lessons from New Zealand's Retirement Commission for UK policy on financial awareness and advice*, a report commissioned from the Pensions Policy Institute by the Resolution Foundation, 2006.

[7] Examples are the pfeg Quality Mark and the Investors in People standard.

Other possible functions

5.16 The Review has suggested – although is not at this stage firmly recommending – that a GFA service could also act in a formal advisory capacity, with a remit to keep under review the state, coverage and impact of GFA in the UK. Such a task should fall naturally from the service's core business of monitoring and evaluating its own activities and should not add significantly to the cost of the central body.

5.17 It is possible also to envisage the body having a significant grant-giving function, assessing bids for funding and distributing grants from its own resources or on behalf of the Government. Such a role could enhance the body's ability to give practical direction to the nature and coverage of GFA across the UK. The impact of such a function on the resource needs of the central body would depend on the scale of the funding involved. This issue will be considered further in the final report. The cost ranges in Table 5.1 do not include the resource implications of this possible function.

Direct mail

5.18 The Resolution Foundation/CBA models assume spending of between £2.5 million and £4.4 million on mass mailings of "self-help packs" to half of the service's Internet and telephone users. This item is not included separately in the illustrative costs in Table 5.1. It is not immediately clear that mailshots of this nature and scale should be a central part of a GFA service based on a hybrid model.[8] To the extent that direct mail is used this should be covered by the overall marketing budget.

Cost of direct services to customers

The cost of web-based services

5.19 Web-based interactions are the least costly way of delivering services, and once the initial infrastructure is in place should be the least sensitive to variation in demand. The CBA cites claims that the unit cost per advice contact online is approximately 20p compared with £10 for telephone advice. Finding innovative ways to exploit the Internet to its fullest could have important implications for reducing the overall cost of the service. Meanwhile, the cost ranges in Table 5.1 allow 20p per contact for this channel.

The cost of a telephone advice service

5.20 Contact centres delivering advice on a wide range of subjects are a well-established feature of the service sector landscape. Research by the Review team and others suggests a relatively standard unit cost figure per customer contact once a certain level of demand is reached, and £10 per customer contact (including staff salaries, training and infrastructure) is a figure frequently quoted.

Examples

Vertex

Vertex is an outsourced business services provider dealing with a wide range of clients. They suggested an average cost of £10 per customer contact (including, but not confined to, telephone contacts).

The Pensions Advisory Service (TPAS)

TPAS operates a small national telephone advice centre, which dealt with over 50,000 calls in 2006-07 from within its £1.8 million budget. This service is staffed partly by volunteers.

The CBA agreed that the evidence supported a unit cost of around £10 per contact for a telephone-based service (including all overheads), quoting the experience of NHS Direct and the Resolution Foundation's research.

[8] The impact of local mailshots will be tested in the two pilots described in Chapter 3.

5.21 Although the figure of £10 per customer provides a useful guide, the actual unit costs will depend on the salary of the advisers and the average length of call. Salaries will depend partly on location but also on the skill level required. The Review has seen services which rely on front-line advisers with a relatively high level of technical skills; for example, calls to National Debtline last on average 16 to 17 minutes, and the cost per call is estimated at £24. There are others, such as NHS Direct and Community Legal Services Direct, which rely on advisers with primarily customer service skills, backed up by comprehensive web-based support and supervisors or second-tier advisers who are able to provide help on complex calls. The Review has heard arguments in favour of both approaches.

5.22 The pilots will help the Review to arrive at some conclusions about the knowledge and skill requirements for GFA and the implications for the costs of the service. Meanwhile, the cost ranges in Table 5.1 allow £10 per contact for this channel.

F2F advice

5.23 F2F contacts are the most expensive delivery channel. The CBA and research by the Resolution Foundation for its study into the feasibility of a national GFA service both arrived at similar conclusions on unit costs of F2F interventions by advice providers in the third sector. The CBA notes that "F2F providers typically cost their advisers at approximately £40-£52 per hour (excluding other running costs of infrastructure, travel expenses etc.) which makes an estimate in the Resolution Foundation models of approximately £40 per contact sensible".[9] The cost ranges in Table 5.1 allow £40 per contact for this channel.

The channel mix

5.24 The preceding paragraphs deal with unit costs of the various channels for delivering advice to customers. The actual cost of the overall service will depend on volumes and channel mix. A service delivering a high volume of F2F interventions will clearly cost more than a service delivering a similar number of interventions using predominantly the web or telephone.

5.25 Taken together, these variables mean that it is possible to model a service to a wide range of potential cost profiles. The Resolution Foundation devised a number of possible models using a variety of delivery channel mixes and different assumptions about levels of usage. This produced costs ranging from around £10 million a year for a largely web-based service with conservative estimates of usage to £110 million a year for a multi-channel service – including a significant F2F element – and high levels of usage. The CBA arrived at a similar range.

Illustrative cost ranges

5.26 Table 5.1 below contains some illustrative cost ranges for a GFA service on the hybrid model. The unit and fixed costs used to generate the table are broadly similar to those used by the Resolution Foundation and in the CBA. However, the approach differs from the CBA and the Resolution Foundation's costings in some respects:

- The costings in the CBA assumed either 2 million or 3.5 million users, equating to 15 and 25 per cent of an estimated target market of 15 million people. We have costed alternative assumptions of 3 and 5 million users, representing just over 15 and 25 per cent of the of two groups, totalling just over 19.2 million people, who would most benefit from GFA.

- The range of channel mixes is purely illustrative and is intended to demonstrate the possible impacts of delivery models that place a greater or lesser emphasis on Internet-based and F2F services. Further work is needed to assess the likely effectiveness in practice of any particular channel mix.

[9] CBA, paragraph 2.3.4. See Annex 5.

Table 5.1: Range of annual costs for GFA service with a range of channel mixes and assuming either 3 million or 5 million customer contacts a year

Contacts (million)	Channel mix (per cent) Internet	Telephone	F2F	Cost (£ million)
3	40	35	25	54
5	40	35	25	81
3	50	30	20	46
5	50	30	20	69
3	60	25	15	39
5	60	25	15	56
3	30	50	20	52
5	30	50	20	78

5.27 Table 5.1 produces a range of costs between £39 million and £81 million. The Review has not – and indeed cannot – come to a view at this stage on what the actual funding requirement is. The final service delivery model for a national system of GFA will need to strike the right balance between affordability, effectiveness, scope and penetration. The Review's final report will aim to measure particular combinations of channels against those criteria, drawing lessons from the pilots and from comparisons with relevant advice agencies operating similar systems.

SECTION 2: FUNDING OPTIONS

5.28 This section considers:

- where the money to fund a GFA service should come from; and
- the mechanisms which could be used to direct it there.

Basis of funding

5.29 The Review's Terms of Reference require us it to make recommendations on: "Options for funding that reflect the benefits to all stakeholders of increasing financial capability over the long term". To achieve this goal first requires some discussion of what those benefits are and where they fall. This Review cannot base its funding recommendations on an unsubstantiated assertion that a business case exists. There is a wide measure of agreement that the level of financial capability in the UK is low.[10] There is less agreement about whether GFA could improve this, and what the impact would be. One of the key uncertainties is the extent to which people will act on the advice the have received. We have had to make some assumptions about this for the purpose of cost-benefit analysis. The pilots will provide indicative evidence that could help to firm up the assumptions.

[10] See for example *Levels of financial capability in the UK: Results of a baseline survey*, FSA, March 2006.

5.30 The Call for Evidence invited views on the following questions:

- To what extent should generic financial advice be free at the point of delivery?
- 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)?
- How can the wider benefits of generic financial advice, to individuals and society as a whole, be quantified?
- 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?

5.31 To supplement the material gathered from the responses to the Call for Evidence, the Review also asked PACEC's high-level CBA to examine the impacts of a GFA service and how these impacts might benefit different stakeholder groups, in particular consumers, the financial services sector and the Government.

Benefits of GFA

5.32 The Review recognises that it is important that the benefits of implementing a national service outweigh the costs. The evidence gathered to date shows that there are positive benefits to the financial services industry, the people of the UK and its Government. The Review recognises that the long-term benefits are difficult to quantify, especially when they rely on a degree of behaviour change. Users' needs, or intentions, may not immediately turn into action, and when they do, isolating the role of GFA in the change in behaviour could be challenging. The two pilots we are undertaking will help to test some of these issues, but we recognise that further piloting will be necessary to further quantify the benefits.

Benefits to consumers

5.33 For the UK population the potential benefits would broadly fall to the individual. These benefits could include people:

- making more informed and better decisions about their finances;
- being able to manage their day-to-day finances more effectively, leading to fewer over-indebted consumers;
- being more capable of planning for their medium- and long-term financial needs;
- being able to more actively engage in the financial services markets;
- being more confident in their engagement with financial services and sources of information and advice; and
- better able to identify problems and deal with issues and concerns as they arise.

Benefits to financial services

5.34 For the financial services industry, the Review believes that having consumers and potential consumers who are more capable, confident and more willing to transact in the market-place would be of great benefit. Such individuals are likely to be more persistent savers and more reliable borrowers. Importantly, if the overall level of financial capability were higher, in the long run the financial services industry would have a broader base of consumers with which to transact. This would both enhance opportunities for marketing products and services and increase efficiency.

There would also be the potential, in the long run, for a reduction in remedial services – including, for example, complaints handling, mis-selling or mis-buying claims and fewer consumers falling into financial crisis and bankruptcy.

Benefits to society and the Government

5.35 In addition to the benefits outlined above, there are also potential benefits to society, and to the Government, of a GFA service. Those outlined below are not exhaustive, but are illustrative of how a GFA service could positively impact on society, and the taxpayer:

- a reduction in health and family breakdown problems arising from financial stress;
- a reduced burden on the taxpayer through a reduction in those dependent on state benefits;
- improvements to financial inclusion resulting in fewer financially excluded consumers;
- a reduction in the cost of support to remedial services.

Quantifying benefits

5.36 The Review recognises that quantifying these long-term benefits is challenging, with most only coming into fruition once a successful service has been in operation for a number of years. However, some assumptions can be made. The CBA highlighted some high-level analysis of the benefits and drew conclusions, including the following:

- Direct benefits to the consumer of a GFA service exceed the present value of direct costs by a factor of 3.5 to 1, based on very conservative assumptions (10 per cent of those receiving GFA advice act upon it).
- It was difficult to quantify the impacts upon the financial sector, partly due to limited evidence on profits across financial services products. PACEC also concluded that it was implausible to assume, as other work has done, a static supply side. They believe it is likely that, in the long term, the industry will adjust around the new advice-driven demand environment and that increasing competition will drive innovation and higher productivity. Furthermore, the lead times in introducing a GFA service will give the industry time to respond, enabling it to enhance its business proposition and protect existing profit streams.
- The potential detriment to the industry from increased "shopping around" for lower prices and a more rational use of debt and savings will be offset by greater sales of savings and protection products (especially long-term investment products), and the benefits of increasing competition. This will drive greater productivity in the long term, with potential for new segments to be served and for the industry to innovate by creating new products.
- There would, over the long term, be benefits to the Government, flowing most directly from decreased reliance on income-related benefits (although in the short term access to GFA might actually increase benefit take-up). The benefits were costed (in relation to Pension Credit only) at around £35 million a year (2007 prices) by 2020.

5.37 Others have carried out work on the cost to society of poor public understanding of financial and related issues. The Public Legal Education Taskforce's recent report *Creating capable citizens: The role of public legal education*[11] looked at the need for better public understanding of

[11] http://www.pleas.org.uk/index.html

legal issues in their widest sense, including money-related problems such as debt. It cited research by Ministry of Justice economists which estimated that over a three-and-a-half-year research period, unresolved law-related problems cost individuals and the public purse £13 billion.

5.38 While further work is needed to analyse some of the benefits of GFA, it is clear that those potential benefits are significant. We will return to this issue on our final report.

Case for joint funding

5.39 A key premise of the Review has been that the cost of the national approach would need to be shared between industry and government. The Review believes that the CBA, taken together with other studies,[12] makes the case for this. It could also be argued that the benefit to consumers makes a case for contributions by users. That question is not addressed in the interim report; but the responses to the Call for Evidence and the consumer-facing research considered that a service would need to be free at the point of use to ensure that it reached the different groups of people with GFA needs.

Views on funding in responses to the Call for Evidence

5.40 Responses that expressed views on funding were divided between those which argued for a wholly government-funded service and those which asserted or accepted the case for a contribution from the financial services industry. Many responses from the industry itself doubted whether any benefit would flow to the commercial sector from increased financial capability, and therefore believed that the service should be funded by the Government.

5.41 Some industry respondents expressed a view that any contributions for GFA activities should be seen as part of corporate social responsibility programmes. In discussions with some industry stakeholders it was suggested that any enforced contribution to a GFA service would lead to a reduction in voluntary support for financial capability and GFA projects; not necessarily because of affordability, but because an additional levy would make it more difficult to persuade shareholders of the case for continued contributions to such projects.

5.42 There was, however, some acceptance in responses to the Call for Evidence from industry that financial institutions should bear part of the cost:

> "… improvements in financial capability are in the best long-term interests of the industry, and therefore … some sort of public-private funding arrangement is appropriate. We would expect any funding arrangement to broadly reflect the relative benefits that would be delivered."
>
> Source: AXA
>
> "The Government stands to gain from improved personal financial provision through a reduction in means tested benefits and should therefore be the primary funder of the service. As well as direct financial support there could be tax incentives for employers providing workplace generic financial advice. We recognise that the industry should also benefit from the service, provided there is an effective referral mechanism to encourage people to act, following the 'advice'. Industry funding could be delivered through a small flat rate product levy limited to a range of most frequently purchased products."
>
> Source: Association of Independent Financial Advisers

5.43 The Review did not hear any convincing arguments that joint funding – even on some of the higher cost options – would impose an untenable burden on the industry as a whole, when set against current profit levels and existing contributions to financial capability via the FSA levy and corporate social responsibility activity.

[12] For example, *The advice gain: The impact of generic financial advice on the financial services industry*, Deloitte for the Resolution Foundation, 2006; AXA, AXA Avenue. http://www.axa.co.uk/avenue/index/html

5.44 The illustrative costs in Table 5.1, if split 50:50 between government and industry, would imply a sum of between £20 million and £40 million, spread across the whole of the financial services industry. This is between 7 and 14 per cent of the FSA's total fee income in 2006–07 of £300 million, raised by contributions from some 28,000 firms.

5.45 A contribution equivalent to this scale of increase in the FSA levy might mean an additional payment of between £0.7 million and £1.4 million for a big diversified bank and £175,000 to £350,000 for a large insurance company, if the GFA service were paid for by the same contribution base that funds the National Strategy for Financial Capability, which should not necessarily be assumed to be the case.

5.46 There are of course concerns of principle as well as cost. Some common themes were articulated in AEGON's response to the Call for Evidence:

Funding mechanisms should provide:

- **predictability and stability**, including for government funding, so that staff and those providing the funding can have confidence in the long-term delivery of the service;
- **fairness** in light of a clear assessment of where long-term benefits accrue between users, the state and the industry, so that everybody is contributing their share of the costs;
- **efficiency**, so that whoever runs the service has a duty to manage costs;
- **accountability**, so that contributors to the funding also have a say in how the service is run; and
- **connection with risk**, so that there is clarity as to who bears the risk if problems with, for example, capacity or service quality arise.

5.47 These issues are addressed in the discussion of possible funding mechanisms in paragraphs 6.50 to 6.61 below.

Personal Accounts

5.48 Some industry stakeholders objected in principle to funding advice on the Personal Accounts due to be introduced as part of pension reform in 2012. The reforms will introduce auto-enrolment for most employees into a qualifying occupational pension scheme, which may be a Personal Account. Auto-enrolment can be expected to be a major trigger of demand for advice on retirement planning. For that reason, the Terms of Reference specifically direct the Review to: "[take] account of future developments in financial services markets and, in particular, personal accounts."

5.49 However, we would not expect questions prompted by auto-enrolment in general, or Personal Accounts in particular, to raise fundamentally different issues to those which could already arise in the context of retirement planning; for example, an individual trying to decide whether to join his or her employer's pension scheme. It would not make sense to try to separate out the "Personal Account" element of any customer engagement which touched on saving for retirement. Indeed it would not meet the impartiality test if GFA advice protocols gave Personal Accounts any special treatment. The Department for Work and Pensions and the Personal Accounts Delivery Authority are considering how best to provide information about the wider pension reform agenda. The Review, and any future GFA delivery body, will remain in close contact with them as our respective work develops.

Possible funding mechanisms

5.50 The following paragraphs consider the mechanisms by which funding contributions from the Government and industry could be directed to a body delivering a GFA service. The solution chosen will ultimately be partly determined by the preferred delivery model and governance arrangements. For example:

- legislation would be needed to introduce a new mechanism for raising compulsory contributions, with implications for the implementation timescale;
- a third sector or private organisation could not levy compulsory fees;
- legislation would almost certainly be needed to allow the Government to direct continuing public funds for this purpose into a new or existing public body, which would again have implications for the implementation timescale.

5.51 The discussion in the following paragraphs examines the implications of three broad options. Not all options will be equally appropriate to all legal governance structures. Final decisions on governance and funding will ultimately need to be made in tandem.

The funding options

5.52 In broad terms, the options are:

- funding via voluntary contributions from the industry and grants from government;
- funding via a new compulsory levy on the industry and grants or grant in aid from government; and
- funding via an existing levy for the industry contribution and grants or grant in aid for the government contribution. If this model were adopted, the only plausible vehicle we have seen would be the FSA levy.

5.53 On all scenarios, the government contribution could be made either to the central body or to partner-providers. If a high proportion of government funding were to be directed straight to partner organisations, the scope for the GFA service itself to control the nature and coverage of overall provision would be significantly reduced. Conversely, the higher the proportion of government funding directed to the central body, the greater that body's implied role in distributing funds to partner organisations.

5.54 The discussion below does not make any presumptions about what form industry contributions – whether voluntary or compulsory – might take. It may be that there would be benefits to the service and to the industry if some contributions were to be made in kind rather than cash – for example by providing staff, equipment or accommodation, or by participating as an accredited partner in delivering the service. This is an approach already deployed in some situations; for example, by the FSA to help staff its financial capability workplace programme. This is an issue we shall return to in our final report, and we would be interested to receive views on the practicality of such an approach.

Analysis of options

Voluntary contributions and government grants

5.55 The voluntary contribution route could be adopted for a service based on any of the possible types of organisational and legal structures described in Chapters 3 and 4, although if the GFA service were delivered through a third sector organisation it would be the *only* possible route.

5.56 The implications of the voluntary funding route are that:

- no legislation would be needed: this mechanism could be implemented quickly;
- industry contributors would be able to claim some credit with the public for their donations; but
- this model fails to meet the predicability and reliability test; there would be no obligation on either government or industry to maintain the level of contributions, meaning it would be difficult to guarantee funding levels in the long term; and
- this approach is unlikely to meet the test of fairness to all industry stakeholders. There would be no obligation to contribute on all stakeholders who might benefit, apart from the persuasion that could be exerted by trade associations. If only a handful of industry stakeholders contributed, they could be perceived as having undue influence. The experience of the Retirement Commission in New Zealand was that voluntary funding from industry was difficult to sustain. The Commission's core funding is now entirely from the Government, which gives the Commission some financial stability.[13]

5.57 For these reasons, the Review has concluded that some form of compulsory levy will be needed to ensure long-term sustainability, transparency and fairness of funding for a GFA service. The following paragraphs consider how this might be delivered.

A new levy

5.58 Raising the industry contribution to the service via a new levy is only an option if the GFA service is in the hands of a public body (or is part of government). A new levy would have a number of implications:

- it would require legislation, which would have implications for the implementation timetable;
- funding would be more secure than under the voluntary option, meeting the stability and predictability test; but
- this approach is likely to be unpopular with industry, unless effective controls were in place to impose upper limits on the levy and/or give the industry some say in the setting of the levy. It has been forcefully suggested to the Review by some industry stakeholders that there is no case for setting up a new organisation with levy-raising powers when the FSA already exists; and
- it has been suggested that some industry stakeholders might reduce current charitable giving if there were a new levy for a GFA service.

[13] By 1995, the Government and the Chief Executives of ten financial services companies agreed that the core costs of the Commission should be shared. Government paid NZ$2.5 million and each company NZ$100,000, so the ratio was roughly 70 per cent government to 30 per cent industry funding. This agreement was voluntary. Financial services companies supported setting up the Commission because it would help to raise awareness of financial products. But then some companies decided that as not all companies were contributing, their own interests would be better served by funding the promotion of their own products rather than general financial education through the Commission. The number of supporting companies reduced to four in 1999-2000. There was then a concern that the Commission could be perceived to be influenced by a few companies. 2000-01 was the first year that Government was the only source of core funding. Source: *Lessons from New Zealand's Retirement Commission for UK policy on financial awareness and advice*, Alison O'Connell, a report commissioned from the Pensions Policy Institute by the Resolution Foundation, 2006.

Funding via an existing levy

5.59 The only plausible existing levy we have seen is the FSA levy. This could be used to generate the industry contribution to a GFA service located within the FSA. Alternatively funds raised via the levy could be transferred to an external body responsible for delivering a GFA service.

5.60 Current legislation requires the FSA to be fully self-funding, therefore the Government contribution could not be fed directly into a GFA body located within the FSA.

5.61 Using the FSA levy as a funding mechanism would have a number of implications:

- New legislation would be needed if it were wished to impose a levy on firms not currently regulated by the FSA (this issue is considered in paragraphs 5.62 to 5.69). Legislation would also be needed to permit government funding to be provided directly to the FSA. The FSA's independence from government is central to the UK's regulatory regime for financial services. Its legislative architecture and funding arrangements reflect and reinforce this. It would be important to ensure that any changes in the organisation's scope did not undermine this position.
- This solution could help to address potential industry concerns over control and accountability.
- Any industry stakeholders that might feel tempted to reduce charitable giving if a completely new levy were imposed might well feel similarly inclined on the scenario of an increase in the FSA levy.

Which sections of the industry should contribute to funding GFA?

5.62 Paragraphs 5.32 to 5.38 concluded that benefit of a GFA service to the financial services industry as a whole had been demonstrated. A levy would, however, have to be paid not by an "industry" but by individual firms. The Review therefore needs to consider which sections of the industry should be included in the contribution base.

5.63 Most financial services, markets and exchanges are regulated by, and pay fees to, the FSA, and most regulated firms contribute to the FSA's National Financial Capability Strategy.[14]

Non-regulated firms

5.64 We propose to take the coverage of the FSA levy as the starting point for considering the contribution base for a GFA service. However, the FSA's regulatory remit does not cover the selling of a number of important everyday financial products.. The main products outside of FSA regulation are:

- loans;
- credit cards;
- second-charge loans;
- occupational pension schemes;[15] and
- day-to-day banking services.

[14] Those excluded are: collective investment schemes (operators of these schemes already contribute via their periodic fees in other fee-blocks); issuers of securities (although recognised exchanges contribute towards the costs of the strategy, the listed companies themselves are not part of the regulated financial sector, and unauthorised mutuals (where the FSA's responsibilities are confined to registering them and recording documents on their behalf).

[15] Which could include Personal Accounts.

These products are likely to generate significant calls on a GFA service. The review believes, therefore, that they should be covered by a levy unless there is a compelling case to the contrary.

5.65 Many of these products are sold by firms that are regulated by virtue of their business in other areas, in particular mortgages, personal pensions and insurance. Such providers would be "caught" if the contribution base for a GFA service replicated that for the National Strategy for Financial Capability. However, the amount of their contribution would not reflect the value of their business in these unregulated products.

5.66 There are, however, many firms which operate entirely within the areas that are not regulated by the FSA, particularly in the business of credit cards and loans. It has been argued that this is a sector of the financial services industry which will see no benefit from increased capability in the short term. Financially capable consumers are likely to manage their money more effectively, less likely to incur charges, and more likely to shop around for better deals.

5.67 However, improved financial capability should create a new pool of potential customers in the long term, particularly in view of the fact that 65 per cent of those who stand to benefit from GFA are under the age of 45. And as the CBA points out, it is unrealistic to suppose a static supply side in the face of a new advice-driven demand environment.

5.68 There are other services which may be perceived by users as "financial", and which may prompt calls to a GFA service, where sales are not subject to any systematic regulation; for example, utilities and mobile phone contracts. The question arises whether providers of such services should be part of the contribution base. Similarly, there are firms whose scale of business is so small, and/or whose contact with the potential users of GFA is so peripheral, that it would be inappropriate or impractical to include them in the contribution base (such as those for whom credit is merely an ancillary activity, such as retailers).

5.69 The Review will return to these issues in our final report. In the end, decisions will no doubt be influenced partly by practical considerations – it would, for example, be administratively complex to levy small organisations which are not currently subject to any form of regulation. The Review would be interested to receive views on this subject.

CONCLUSION

5.70 This chapter has:

- set out a range of possible costs for delivering a GFA service based on varying assumptions about usage and delivery channels;
- outlined the benefits to consumers, industry and the Government of a national GFA service. These indicate that even on conservative assumptions about the proportion acting on advice, benefits significantly outweigh costs;
- described the case for establishing a GFA service that is jointly funded by government and the financial services industry;
- described a range of mechanisms for funding a delivery body. It concludes that a compulsory levy will provide the most secure funding route for the industry contribution, although this would almost certainly require legislation whether funding were directed via a new levy or via the FSA;

- considered what the contribution base for a GFA service should be. It concludes that it should cover firms who contribute to the National Strategy for Financial Capability, and that there is also a strong case for a levy to reflect the value of business in non-regulated consumer financial products, even where conducted by firms not otherwise regulated by the FSA.

NEXT STEPS

5.71 This chapter has set out some broad estimates of possible costs of a GFA service and some initial assessments of the likely benefits. These estimates are based on the high-level CBA commissioned by the Review, submissions received in response to the Call for Evidence and information gathered in the course of a wide range of stakeholders.

5.72 It was always clear that the initial high-level CBA would need to be supplemented by further work, particularly to reflect the lessons learned from the consumer pilots. This more detailed work will form the basis of a significant part of the Review's final report. It will enable us to come to firmer conclusions about the benefits of a GFA service. The pilots will also enable us to come to indicative views about the most appropriate channel mix which will in turn allow us to refine the range of costings, including start-up costs.

QUESTIONS

1. Would a compulsory levy be the most appropriate way of raising the industry contribution to a GFA service; and if so, should it be a new mechanism or an existing one, such as the FSA levy?
2. Would it be practical for compulsory contributions to be made partly in kind, whether by provision of staff, accommodation or other resources, or as a direct provider of part of the service?
3. What should be the coverage of any industry levy? In particular, should it reflect the value of business in non-regulated products, such as some consumer credit companies, which are likely to generate significant calls on a GFA service?
4. Are there some firms that should be excluded from a compulsory contribution? In particular, should firms that:
   - sell only non-regulated financial products; or
   - operate on a very small scale or for whom credit is just an ancillary acvtivity; or
   - have only peripheral contact with those who are most likely to benefit from GFA;

   form part of the contribution base?

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