



Mr Ted Hart  
Thoresen Review of Generic  
Financial Advice  
Savings and Investment team  
(SAVI)  
HM Treasury  
1 Horse Guards Road  
London  
SWA 2HQ

Date: 22/01/2008

Dear Mr Hart

**Thoresen Review of Generic Financial Advice: Interim Report**

The FLA (Finance & Leasing Association) welcomes the opportunity to comment on your interim report on generic financial advice (GFA).

The FLA is the principal representative of the asset, consumer and motor finance sectors in the UK. FLA members provided £93 billion of new finance in 2006, £27.5 billion to businesses and the public services, and the remainder direct to consumers.

We very much agree that improving customers' understanding of, and responsibility for, their financial affairs is very important. Our members make great efforts to ensure that they lend responsibly, but this needs to be matched by responsible borrowing by consumers. The provision of good quality financial advice, if done effectively, ought to help this. As your interim report recognises, many organisations already provide such advice. It is important, therefore, that any new service genuinely fills gaps and that the costs to the industry (and hence its customers) are as a result fair and proportionate.



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The rest of this letter deals with some high level issues of principle raised in the report.

## **Chapter 1 - Analysing the existing landscape**

The review team is to be congratulated on the work it has done to assess the current availability of financial advice.

The interim report says that one current gap is advice encouraging individuals to plan ahead and take measures to prevent themselves falling into debt. We, too, believe that preventative education is important. In fact, there are several sources of advice of this sort and the problem may therefore rather be, as the report suggests, how best to overcome the barriers to uptake listed in paragraph 1.38.

The report does not explain how this might be done, nor how a new GFA service would help. We would urge that further work in this area (as suggested in the report) is now undertaken, before any formal proposals are made. It is important that a real consumer demand is identified taking into consideration the views of real consumers and not just the views of consumer groups, and that it is clearly demonstrated that a new GFA-type service would meet such a demand more effectively than existing sources of advice.

The report also suggests that consumers have insufficient access to advice encouraging them to take practical action concerning their financial affairs. Such advice might include seeking support to choose a product type to meet an identified need, or guidance on how to respond to a specific external stimulus. We support the view (paras 1.48 and 1.49) that any GFA service would need to provide consumers with the confidence and knowledge to take responsible borrowing decisions where this might not otherwise have been the case. It is our view that the most disadvantaged individuals and, thus, those most at risk of not obtaining the necessary advice, are least likely to use a “big

government” solution. The best method by which to reach such individuals is through local and voluntary charities.

This once again points at the importance of ensuring that a GFA service would genuinely fill gaps in existing advice and at the same time provide clear signposting to other and, often more appropriate, sources of advice. Duplication of the work of other organisations must be scrupulously avoided.

## **Chapter 2 - Who needs a generic financial advice service and how can they be engaged?**

We agree with the interim conclusion that the GFA service should be available to all, but designed and marketed for those who would benefit most. This is another way of ensuring a GFA service concentrates on areas of unfulfilled demand and avoids duplication. It will also be important if costs are to be contained at a reasonable level.

We note the suggested outcomes set out in para 2.28. We support these in principle, but on the understanding that the GFA service provides information (it is important to differentiate between advice and information so as not to confuse the consumer) on *a full range of* financial products and services and does not – for example – overlook or in some way disparage the responsible use of credit. There is a risk, given the genesis of the GFA concept, that advice may be – perhaps unconsciously – skewed in favour of saving and against credit and associated protection *in principle*. This must be avoided. Individual consumer circumstances must be the basis for the appropriateness or otherwise of information on saving and credit. Indeed, a recent government report recognised that credit enabled consumers to manage finance better and provided them with the freedom to match spending to need and opportunity.<sup>1</sup>

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<sup>1</sup> Department for Business Enterprise and Regulatory Reform, *Tackling Over-indebtedness Annual Report 2007*, p. 4

We believe that a fuller analysis is needed of the possible marketing strategies for the GFA service, to ensure focus and value for money. The approach set out in para 2.49 seems rather too wide in scope and risks dissipating effort. For example, the use of intermediaries may be more effective in targeting than mass awareness-raising campaigns.

### **Chapter 3 – Designing the national approach**

The parameters in para 3.8 set some important boundaries. A difficult balance needs to be struck between providing a service which falls outside the regulatory regime and one which provides enough information or guidance to make it worthwhile. Getting this balance right is crucial to the success of any GFA service.

While the suggested parameters may be appropriate high-level indicators of the depth of GFA advice, the way they are applied in practice will be of crucial importance to the consumer credit industry. For example, while one of the parameters states that the “GFA will not make recommendations to buy, surrender or change a specific product from a specific provider”, no indication is given as to whether recommendations will be made about particular product *types* – for example, as already mentioned, favouring the purchase of savings products over short-term credit or insurance. This may be overcome by using some kind of template or flowchart which sets out the considerations consumers might need to be aware of.

It will be important, therefore, that the credit industry is kept fully informed of the content of the training materials used by any GFA service. Industry input will ensure that GFA service providers are kept up to date with industry developments. To this end, we recommend the establishment of a training oversight group, consisting of finance experts, consumer bodies and industry representatives to ensure that

training materials remain up to date, and to provide a forum for the resolution of any misunderstandings about products or their benefits.

We agree that the GFA service should offer unregulated financial guidance or information, which will keep the costs lower. However, the advice service must nonetheless be accountable. There must be proper provision both for customer complaints and for the resolution of industry concerns about the quality and content of this guidance. The Financial Ombudsman Service (FOS), for example, should be well informed about the liabilities which arise from the GFA service.

We support the hybrid approach to delivery outlined in paras 3.24 to 3.30. This approach would minimise the risk of duplicating existing services, and allow existing providers to continue operating. Our current feeling is that the lending industry would probably not wish to deliver a GFA service directly, but would definitely want to participate in the governance of the service, including via involvement in training materials as outlined above. See also below.

#### **Chapter 4 – Governance**

As the report says, setting up a new organisation to run the GFA service would have serious cost implications. We therefore propose that serious consideration be given to whether any existing body might sensibly be charged with this new responsibility. Nonetheless, legislation will be needed to establish an appropriate GFA governance model with the appropriate checks and balances needed to ensure it does not stray into regulatory territory.

Whatever the final decision, and as already indicated, the new service will in any case need robust and genuinely representative governance arrangements, ensuring an appropriate industry voice. An appropriate

and timely review mechanism also needs to be established to ensure progress can be properly measured.

## **Chapter 5 – Costs and funding**

A new compulsory levy, as the report indicates, runs the risk of reducing current voluntary charitable expenditure. The credit industry already voluntarily supports a significant number of financial advice organisations, including for example the Money Advice Trust (MAT) and the Consumer Credit Counselling Service (CCCS). The funding arrangements for any new service would need to be carefully designed to avoid undermining this kind of support.

The report also recognises that certain sectors of the financial services industry are likely to benefit more than others from the effects of the GFA service. This points towards a funding system which reflects that differential benefit. For example, if the encourages a move away from certain types of product, it will be very difficult to justify asking the providers of such products to pay for it, particularly as such a cost will ultimately be borne by the putatively smaller customer base. Whatever funding mechanism is agreed, there should be a cut-off point so that small firms are not required to provide funding for this service. The funding model should also be carefully considered to ensure that no company is paying more than once for the service (e.g. those companies who are subject to both FSA and OFT regulation).

Questions also arise about means of collection, as the report recognises. Companies not currently paying an FSA levy could not be expected to contribute via the FSA.

Whatever system is chosen, it will need to be carefully designed and consulted on fully. We look forward to responding to more detailed proposals in due course.

In the meantime, we would be happy to discuss with you any of the points raised above.

Yours sincerely

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