

Model Minds Ltd



Response of Model Minds to

Thoresen Review of Generic Financial Advice:

Call for Evidence

2nd Edition

March 2007

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Generic Financial Advice – Call For Evidence

Introduction

The importance of Financial Literacy in ensuring that consumers can engage appropriately with financial services cannot be overstated. A healthy market and economy requires its consumers to be engaged, informed and acting in their best interests.

We at Model Minds seek to contribute to the understanding of the underlying determinants that would give rise to effective skills and hence behaviour enhancement. In addition to skills and knowledge our behaviour change experts view engagement, confidence and self belief as important determinants of financial capability. An individual's inclination and ability to engage in financially beneficial behaviour is dependent on their previous experiential learning. Our work has demonstrated that a highly emphasised present orientation, rather than a more future based perspective militates against value for money based decisions and towards maximising current utility. In addition, attitude to risk and security of status are key determinants of ability to be financially effective in the mid to long term.

Strategic Issues

A. What is happening today, how and to whom?

These questions aim to find out what is currently available to help people manage their personal finances in the broadest sense. This includes advice on benefits and debt advice, as well as advice on product markets or specific products. The Review Team is also interested in evidence of similar services, delivered commercially or by the public or voluntary sector.

AS1. What generic financial advice services are you aware of in the UK? Are these provided by the public sector, the private sector or the voluntary sector?

There are a considerable number of resources for those that search.

These include BBC, FSA, Citizens Advise, Money Basics, PFeg, National Debt line, Consumer Credit Counselling Service Credit Action. In addition there are a number of comparative web sites

AS2. For the services in AS1, please give some information on structure (e.g. funding. Governance, scope of service, geography, legal basis of advice, scale constraints etc.)

This is not our area of expertise; however we observe that a number of these charity or NGO are well supported by government and the finance industry.

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

Generic Financial Advice must engage with the public and sell the concept of financial empowerment and responsibility. In addition it must provide information, advice and development resources to ensure an appropriate level of competence and confidence such that the consumer can effectively engage with financial products. The range of products should be wide enough to include all borrowing, investing and

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

The challenge in the UK is similar to that in the United States, Australia and New Zealand each have a number of initiatives that add value but have yet to provide a comprehensive solution. Indeed solutions appear to be multi layered and multi provider providing a network of initiatives. The environments are consumer led and providers of financial products operate in a highly competitive way. As such products evolve faster than legislative solutions. Whilst these economies have high average levels of wealth segments of the community can become impoverished and excluded. As the governments encourage the commercial enterprises of retail and finance there is requirement to ensure that consumers are fit for purpose. In addition competent consumers encourage better providers and enhance the overall industry performance. Failure to ensure that all consumers engage appropriately results in a watershed where those that fail to engage are faced with reduced options, poorer outcomes and potential exclusion. These people also have increased risk of turning to the state for support to replace access to resources which they could have otherwise developed for themselves.

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

We continually analyse behavioural analysis published on the internet and would forward any information found that was relevant to specific issues requested. Considerable good work has and is being reported in Australia, the UK and the US.

AS6. Do you consider the current infrastructure could deliver the kind of generic financial advice provision engaged by this review? Or is a new structure required?

Those who are both capable and engaged will use further information well. The challenge is to reach those who are indifferent at best and more often distrustful. The indifferent range across the capability spectrum and tend only to access financial services on a “needs must” basis. Unfortunately this approach is fraught with difficulties, they tend to access products naively – often utilising the wrong product at the wrong time in the wrong place. As a result they are very likely to generate suboptimal performance; they have the potential to borrow inappropriately, invest too little, too late, and pay heavy costs for that privilege.

We must target to attract the attention of the indifferent, achieve engagement, establish trust, eliminate fear/ reservations, impart real knowledge, develop interest /aptitude/ proficiency, etc.

Failure in this aim would result in a heavy burden remaining with the safety net of the state. In addition the resultant inefficient performance damages both overall prosperity and the chances of developing a world beating financial services environment. Getting it right generates a win, win and win again scenario – clearly worth the effort.

B. What should the scope of a national approach to generic financial advice be?

These questions are aimed at some of the “nuts and bolts” issues of delivering a generic financial advice (or other relevant) service: getting the content right, identifying and targeting consumers, delivery mechanisms, staffing and accreditation.

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

Ensuring that all consumers are competent at accessing financial services is a clear aim that is hard to criticise. We would suggest that this should only be compromised where limited resources would be stretched. Where information is free of cost at the point of access, as for instance on a BBC information site, the broadest spectrum can be supported. Where one to one tutoring is offered this must be focused to provide for the neediest. Should low cost distributed internet coaching be provided, it could be broadly accessed?

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

Screening of consumers can be achieved in various ways. Rather than steering away a more inclusive programme would allow self identification of need, and then sort, filter and channel consumers to appropriate resources. Self identification of need can be achieved through differences in channels of supply, branding etc. Web based systems are adept at referring users to appropriate resources.

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

Overall, large initiatives can and should set the general environment and the broad aims and goals. For example the need to ensure that all have appropriate pension provision should be launched via government backed NGO's e.g. BBC or FSA.

In order to effect communication to all the advice industry must apply market segmentation and multi channel approaches to ensure both a depth and breadth of communication. This could give the appearance of being poorly coordinated and does require continual analysis to ensure that there is good coverage. The rather patchwork quilt effect is more likely to achieve the best results especially if the providers have both expertise, independence and appropriate funding. There will be a requirement to help fund new providers that think outside the box even if this is channelled via the current providers.

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

Generic financial advice has to be multi layered and range from imparting the general need to achieve an adequate level of financial awareness through to developing key skills and down to specific understandings of generic product knowledge.

The central enabler is to create an environment where, for each individual, understanding and getting to grips with their finances is a more attractive proposition. For a very large proportion of the population, managing money is seen merely as an enabler “unpleasant stuff that’s got to be done” For a large and growing minority, the view is that money can be accessed and consumed, a trump card that enables them to have and do stuff.

Financial capability will need to be reframed and “sold” as an empowering benefit rather than a responsibility and burden.

There are significant levels of environmental and behavioural characteristics that predicate against the UK populous developing the appropriate skills. We even define ourselves as a consumer society, shifting the emphasis of self identity from our work role towards what we buy and consume.

Whilst the key monetary outcome for consumers would be better utilisation of “financial products and services” and as such better positioning to support themselves through the various challenges and stages of life, this has not been the perceived need of many. Indeed the ideas of universal right of access have, it would appear, been misconceived by many, by appending the tag “free of cost”.

The unclear or moving balance between state and personal responsibility and hence the acceptable level of a state funded safety net coupled with high levels of consumer pressures could result in vast numbers of people over consuming now, in the mistaken belief that the state can and will pick up all future costs.

Yet the attitude remains that budgeting and limits of state service are almost taboo. This can be shown in attitudes towards many public services such as education, health and pensions where demand continues to outstrip supply, where perceived rights of access are unlikely to be matched by delivery other than by changing that perception of delivery. An example here is the NHS where the battleground has shifted from raw cost towards efficiency, honesty and competence. The public still want a better NHS but appear to recognise that the overall budget is near to a natural ceiling. Yet the responsible officials still find it impossible to engage the public with the idea of limited resources and the idea of a limit on services that can reasonably be provided.

Generic Financial Advice should, we feel, include the following Life Skills:

- Ability to formulate and apply sound decision making strategies
- Ability to recognise and face difficult choices
- Planning skills
- Use of money management tools
- Verbal and reasoning skills which combine to enable resistance to peer pressure and manipulation from loved ones

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BS5. How can the boundary between generic and regulated advice be clarified so that it is clearly understood by both consumers and those giving generic advice? Where should it be drawn?

Generic advice must be directed at the common good rather than the partisan approach typified by some interested parties. This is immediately problematic, as demonstrated by gambling. For many the national lottery is harmless fun and provides significant funds for many community services and good causes. For some it is abhorrent and even sacrilegious for others it is either a significant drain on income or an entree into deeper behavioural problems. Many would claim that the current fraudulent television based phone in gambling was empowered by many of ideas promoted by the state lottery. The public were softened up and the broadcasters, seeing something for nothing, wanted a piece of the action. The result is to defraud an impoverished element within the community and further erode trust within our society.

Governments set an interesting example, at March 2007 Net Debt was £501Bn having risen £35Bn in the year. This can be seen as irrecoverable as there are no plans to save up and repay this amount. As a point of interest personal current debt is running at circa £9,000 per household Mortgages raise the average balance to £54,000 this government debt adds a further £21,000, in total more than two years average income. This is rather the same as living on a credit card debt we are unable to repay, merely continuing to fund the interest. The government in power will always claim to be investing for the future and therefore the right thing to do, the opposition will claim we are over borrowing as a nation and claims it is wrong. Where the common good lies we are all unsure.

To reassess the scope, Generic advice must be consistent with the objectives inherent in its proposition: Presumably to encourage the populous to maximise their financial opportunities through utilising the most appropriate financial products in their and the country's best interests. Generic financial advice must engender engagement and confidence as well as knowledge appropriate to access such products in a competent way. To revert to the gambling example such an aware consumer would be able to perceive and understand that there was no dependable prospect of winning and that it must remain merely a "bit of fun". On a more serious view a borrower should recognise when, how and on what terms they borrow and have constructed a realistic plan to repay rather than merely fund the interest.

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

Consumer contact and referral is a key gateway function. The typical consumer will avoid committing time or effort to access advice and hence needs to be encouraged or even dragooned into educational

processes. Our expertise in consumer behaviour is oriented towards people looking for credit. These customers will comply with legitimate requirements to access credit. As such it appears highly imbalanced that financial advice is mandated when investing, but non-existent when borrowing. The majority of poor investments are far less damaging in portfolio terms than poor borrowing. Interactive training could be provided before, or with, every credit product. Indeed with the dangers inherent in credit cards we believe it must be mandatory.

In addition, debtors that have a history of poor performance can easily be identified and referred. All competent creditors are able to track and react to repayment performance. Competent sub-prime lenders target to positively manage debtor performance. In the majority of these tracking activities the result is additional charges and or pressure being applied. These trigger points could provide stimulus for referral for mutually beneficial training. If penalty charges merely recover cost then better performing debtors are beneficial to both lender and borrower.

BS7. Where should people be referred to after receiving generic advice? Should it be possible to refer people to a commercial provider? If so, how?

Generic advice needs to be situation specific. Whilst a library of educational processes could be made available the normal consumer reference would only be made when they were referred by a trigger activity.

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

Generic Advise could be developed as an approved qualification as a parallel or supplementary to the IFA qualification for financial advisors. However the range of advice is diverse and a development of best practice behaviour could be more advantageous. The massive need for such advise should be capable of generating such demand that responses would be better handled via interactive media as well as one to one via telephone and advise centres.

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

N/A - We are not legal experts

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

It is essential to develop the best network of advice providers. If this is better achieved through supporting and developing the existing organisations or by the foundation of further providers and or restructuring such solutions should be considered in the round. The establishment of new replacement providers should not be considered in isolation. We feel it is inconceivable to construct a monolithic structure due to the breadth of advice and support required through the various channels. Also such centralised structures often lack the ability to evolve in tune with the requirements.

C. Cost and Funding

These questions are aimed at getting data on the costs and benefit of a generic advice service. As well as details costs, the Review Team is also interested in quantifying benefits, including individuals, wider society and different parts of the financial services industry.

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

Take up of Generic financial advice would benefit society as a whole and hence there is a good argument for free at the point of delivery, however its perceived value, market penetration and utility will clearly be affected by positioning, of which, price, is an element. Whilst perceived expensive advice is often left on the shelf, free stuff is often ignored or discounted”

CS2. Is there any evidence that supports a commercial case for generic financial advice service (including required changes to the existing model to improve the situation)?

Yes is the clear answer, but in many cases the current commercial response needs to be changed. Charging structures for many banking services have been packaged under “something for nothing” i.e. free banking. The charging structures are then driven by holding balances, fees either embedded within investment and insurance products, or charged against delinquent behaviour. This has the behavioural effect of making “good” but basic service customers who neither borrow or hold balances in low interest

accounts rather unattractive. Customers who invest in products, borrow on unsecured loans that are insured and also make late repayments are great earners for the bank.

The effect is that commercially such poorly managed or even delinquency activity, if not encouraged, is certainly tolerated.

We believe Banks and similar financial institutions should under various responsibilities, including responsible lending, should provide or provide support for a full range of the appropriate advice for customers. Once charging structures are rebalanced in line with service provision Banks would benefit from better performing customers and on balance be more penalised for customer failures. There could be a business model where the service package provided included a considerable level of customer skills training.

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

The value of generic advice will be difficult to evaluate directly, in the same way as for the provision of basic education. Basic skills are necessary to function as a full member of society, and in this modern society, basic financial skills are a prerequisite for effective citizenship.

Having said that there are some clear indicators we can use. IVA's are mainly the result of personal overspending. The IVA is predicated on people being capable of recovering from such crippling debt over a five year period. It is thus without question that in the majority of cases these people have built debt due to their behaviour either tacking poor decisions or failing to take correct ones. Whilst many involved blame an event or change in circumstances this is incorrect the event is merely a trigger that they failed to recognise or to react appropriately.

The cost of IVA's within England and Wales for 2006 with 44,331 IVA's at an average of balance of £57,000 with less than 40% recovered to the creditors is a staggering £1.01 Billion.

Our work has confirmed that the resultant debt building is enabled by some consumers' perception that debt is less relevant than cost, and cost is still less relevant than the items and services available or purchased. This is understandable as, products and services are real, whilst debt is an artificial construct. Consumers without the basic framework often referred to as "common sense" by people without such limitations, will assess debt very differently, if at all.

As an example a standard Master Card charges 1.527% on purchases and requires minimum payments of 2.25% of the balance. Applying the simple idea of minimising cost, most would pay the balance of each

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month utilising free credit. Some 10% of users of credit cards only ever pay the minimum. The effect is not only over 18% annual compound interest but also a steadily rising balance. For a consumer with £1000 per month to spend, their options may appear to be £1000 per month, but using the credit card, their payment would be only 2.25% of that £1000 ie £22.5. Thus their £1000 a month allows them to rack up $\text{£}1000/2.25\% = \text{£}44,444.44$ of debt.

The point is, until the credit line is stopped or higher repayment required, the debt servicing is less than they have to spend. If this argument seems ridiculous, congratulations! You have a better grasp of generic financial issues than many who drift into insolvency.

As stated, the balances written off under IVA's is running at over £1Bn a year. There are some four Million people who are consider they are coping poorly having become financially stressed. The IVA's over a five year period only account for 0.5 Million of these, a further 0.5 Million will enter bankruptcy at a similar cost. In all cases the monetary damage to creditors is dwarfed by the damage to the debtor and their family, due to stress, exclusion and the loss of opportunity, both for the years leading up to the IVA and the five year programme itself.

In addition, various assessments have been made to identify where all the money has gone. Few entering IVA's have much to show for their creditor's investment. Spending appears evenly spread across consumables and services, credit charges, and repeat purchases of what should have been consumer durables. Such consumption is often at a higher rate than that which was needed, or even really wanted.

CS4. What factors should be taken into account in deciding how to split any costs of a generic advice service between the stakeholders who will benefit from the service?

Whilst failure to grasp generic financial advice damages society as a whole, the problem does not lie everywhere. A levy on Financial Service providers is appropriate as they would benefit from an enhancing of consumers financial skills. The providers of credit have an even greater responsibility and appear capable of funding a £1Bn write off with only a few complaints about it all being too easy for the debtors. The reality is that their sales and marketing teams actively sell debt and indeed push products through a variety of vendors and commission driven brokers. Indeed a large amount of credit is positioned as an afterthought, at best, to the spending process.

CS5. How can the "generic" element of existing regulated advice processes be costed and its benefits quantified, including the process of customer engagement and the "fact find".

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This is extremely difficult as the purpose and process of much regulated advice is embedded within the sales process. Indeed having been walked through a number of investment risk assessments, other than as a slowing down process, little or nothing was gained. This is as a result of being given standard advice at a level much beneath the personal level of experience, poor targeting.

D. How can potential users be engaged?

These questions are aimed at getting evidence on how consumers can best be attracted to using a generic financial advice service, including how they can be motivated to take an interest in their financial affairs before “crisis intervention” is needed.

DS1How can consumers be encouraged to improve their financial capability and take an active interest in their personal finances?

This is a sales challenge and consumers need to be approached in various ways to achieve high levels of awareness. In addition, the communication needs to be relevant to the consumer in terms of message, benefit, positioning, timing, and location.

The populous learns financial behaviour throughout life and the majority do so experientially, that is, through observing and doing. This learning is achieved on the consumers’ terms and absorbed on a what works basis rather than as an abstract theory. The easiest wins are thus achieved by providing staged learning experiences in line with the consumers development. As such, stages of life such as school, collage, work, retirement become key divisions.

The relevance of finance skills to many school children is low and unfortunately falling. When money transactions had high visibility, the idea of work and trade generating income as money with which to maintain the home and family had a high level of clarity.

The current and future trend to digital money makes the recognition of income and expenditure, and the balancing act, invisible to many. The complexity of income calculations, taxes, rebates, allowances and other entitlements adds to the confusion. Seeing what’s left in your wallet at the end of the week may have been a hard lesson but it was easy and clear. Even under these circumstances, however borrowing and investing decisions were often poor.

As the process of balancing income and expenditure has become blurred, the need to understand and manage this reality has become greater. Indeed as the level of funds that the general UK consumer can access has increased, the importance of their decision making has increased many fold. We are developing a society where decisions on investment, pensions, education and healthcare may evermore swing towards the individual as the state reaches the maximum level of permissible taxation and where employers reduce their responsibility for the long term. There is a significant capability expectation gap: we expect more than we can afford, however, this can be bridged if we invest wisely, borrow less and consume what we need rather than what is available.

The individual has the ability to spend all their current income and use this to generate massive borrowing. We have seen mortgage multiples over five times income and credit card debts in multiples of income as well as additional substantial loans. Such overreach can be seen as reckless, however, in most cases it is a result of naivety developing into denial. As experiential consumers they tried it, enjoyed it and then managed the situation so they could keep enjoying it.

Society needs these people to manage their current money opportunities better to secure a better future opportunity. This is a hard to sell proposition in a very impatient, instant access, society, which has become to believe that their rights to access services are independent of their need to pay, either directly or in taxation. They can have loads of jam today through not making sensible decisions. The sales challenge is for less jam today but probably more and even better jam in the future.

Many consumers are content consuming, it is in their nature. Reduction in debt, and increased saving and investments are and feel like a reduction in the option to consume. To succeed, the options must be reframed and the current status destabilised in the consumers' perception.

A solution would need to position future consumption as more valuable than current spending. In the current vernacular, ensure everyone feels they have the right to open and pay into a pension. Similar virtuous activities would need to reverse the pride of holding many credit cards with the superiority of holding one at most and paying it off in full. The impact of getting debt wrong is currently still not clear in many debtors' minds. Programmes like "Beat the Bailiff" and "Bank of Mum and Dad" are credible attempts but the need to make the programmes watchable reduces the ability to show the degradation of life that such debt really brings.

Reality, even for the prudent, involves student loans, car loans and mortgages before we get to investments and pensions. It would be better if these investments could be positioned as something to save towards, positioning credit as something that can be earned and planned for.

Creditors have developed highly flexible products and retailers have generated many guises for the credit sale. Both industries are driven to maximise volume through reducing customer resistance to buy. Hence,

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instant, interest free credit and “buy now pay latter”, the sales version of the credit card. Such flexibility allows, if not encourages, consumers to be confused.

The highly politicised debate on the welfare state will continue, however, it is clear that the idea of cradle to grave care of the highest order could only be available to all if it is paid for. Unfortunately, the sales pitch has been of a suite of services raised to ever higher levels which discourages the populous from preparing for future events. If one feels the safety net is both high and strong, why would anyone spend their life cobbling together a third rate parachute. Honesty and clarity is needed, for example, “the state pension is a minimum, all would benefit greatly from investing in their own fund”.

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

The selling of shares and council houses were campaigns that started life as both unbelievable and against the public understanding. Why should people buy what they already owned? Indeed many saw these suppliers as services and employers and found it hard to recognise them as a value generating business. The perception was reframed, converting their managers into directors, their costs into assets and their historic problems into heroic successes. If we expect people to invest for their own pension, education, health and use their own income rather than borrow it on credit, then the same shift must be made. The national lottery was a similar situation where gambling was repackaged as a charitable giving for civic good. The “good causes” element, allowing the natural resistance to such a poor investment to be ignored, once accepted by the consumer its actual utility has mainly reverted to gambling, with little knowledge or attention placed on the good causes.

An even more heroic stance was the compulsory pension introduction in Australia. This forced saving, heavily criticised at first has been pivotal in attitude and comprehension change. The populous have rationalised their acceptance by accepting the need as a reality. Compulsory saving in Ireland had a similar focusing effect of obliging people to engage in understanding. With compulsion, great care must be taken if a repeat of the poll tax revolt atmosphere is to be avoided.

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

The Brand image must be exciting dynamic completely trustworthy and perceived to last forever, oh yes and always right. Unfortunately this status is very difficult to achieve and maintain. Without wishing to insult anyone’s religion there is no institution currently in the UK with such a pedigree for all people. The BBC, FSA,CAB have some of these qualities, as also do some of the support charities but none have all.

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Such a reputation would need to be earned. For clarity, governments and Banks are not held in such high regard, however in the case of Banks, if their positional advantage is explained the public will more readily accept their patronage. Money basics demonstrate an appropriate online image.

DS4. Is there evidence on which engagement mechanism(s) is likely to work best overall and with different segments of the targeted population (e.g. which media, messages, etc.)?

As stated, the real shift required in the populous, is in attention and focus. Almost all consumers already know that their money management could be better. The shift in perception has to be for them to get the idea that “they will make it better”. This will need a multi media multi message approach. There needs to be a shift in the understanding of “responsibility” Which could best be achieved by positioning such responsibility as their “rights” and enhancing the clarity of the options of ignoring such opportunities.

The more dynamic and interactive the media the better. Web technology continues to gain in the power to grip attention and communicate. The products and services must be interactive. TV launches of key initiatives and appropriate story lines in such media output as “fashionable soaps” would also add to the dynamic. A better degree of consistency in product offerings helps, as does a high level of industry behaviour. The collapse of an un regulated Christmas club is a very poor signal to those trying to do the right thing. Indeed the existence of a poor value Christmas club did little to give the market any bankable credit.

Our research confirms that appropriate consistent relevant advice given at the right time is most appreciated. In sessions with over borrowed debtors a high percentage agreed that understanding the need for and establishing appropriate spending behaviours would have been well received even as a condition for being provided a loan. Rather like being asked to pass a driving test before being allowed a car.

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

Face to face advice is clearly useful, especially in crisis situations. Location and accessibility is important and for crisis situations Citizens Advice the CCCS and other charities provide a very good safety net. Generic advice could be provided through schools, colleges, financial institutions and workplace support, the latter as part of programmes such as investors in people etc.

These processes need a great degree of reinforcement and online skills development processes should become the most efficient resource even if they are introduced in parallel or part of face to face processes. We have found that the cost of effective mentoring on a one to one basis would be reduced to less than a tenth if provided via interactive development programmes, even with telephone support.

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

Simple answer is Yes, The longer answer is that it must be a key element in a market where each player has a perceived benefit in the consumer getting smarter. If any key players such as creditors, retailers or lawmakers have a perceived benefit from poor consumer decision making then there is a risk that proper consumer development will be diverted for short term gain. As an example, whilst the IVA is not performing as intended, it has sent a serious shock to creditors to understand the financial status of their debtors better. Unfortunately it has not provided the same impact on debtors. It could be that a level of prosecutions for fraudulent borrowing would rebalance this. Certainly there are apocryphal stories of brokers writing up some very strange credit applications. Credit applicants from the over indebted seldom provide the full facts.

E. What should the governance arrangements look like?

These questions are about the governance of generic financial advice provision on different bases, including a possible joint Government-industry venture.

ES1. What organisation(s) should be responsible for oversight of and/or delivery of a national generic financial advice service (e.g. national vs. regional oversight, existing vs. new body)?

The oversight must be from secure trusted bodies that have strong pedigree, the ability to fight their corner and get things done. The FSA would be the obvious choice. Whilst some key delivery channels must be large organisations such as the BBC many should be the smaller and oftentimes more dynamic and innovative. This enables the chance of small failure to be replaced and reinvigorated and success to expand rapidly. The ability for all to see, and claim success will be key to the solution, which must be a long term increasing improvement.

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

As with all projects the plans should have effective smart targets linked to continued funding support. Clearly the appearance and delivery of service is measurable as are access and uptake by consumers. The efficacy of such advice is more problematic to judge. However movements in terms of reduced financial failure. Reduction in delinquent payers and increased holdings of appropriate investment products would indicate good behavioural shifts. Also the reduced need for and use of high cost low value product, in short a more competent consumer performance.

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

Relationship should be identified and developed such that there is consensus of responsibilities. For example where a capable charity provides a strong service this should be regarded as part of the patchwork of offerings and if necessary expanded to complete a fit within the programme.

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

This is not our area of expertise. However, governments like to see the appropriate industry fund as much as possible, and a levy already exists. For our part, we would see government fund some of the key development initiatives and encourage EU funds to do the same. This approach would be suitable for IT based services which could then be charged on a usage or access based services provided either direct to the public or via commercial or charitable portals.

Operational Issues

A. What is happening today, how and to whom?

These questions aim to find out what is currently available to help people manage their personal finances in the broadest sense. This includes advice on benefits and debt advice, as well as on product markets or specific products. The Review Team is also interested in evidence on similar services, delivered commercially or by the public or voluntary sector.

AO1. What advice service are you or your organisation responsible for delivering (this need not be generic financial advice)?

We are developing an online interactive programme to provide a personal analysis and coaching and mentoring experience. The first product being developed enables users to confront their inappropriate spending behaviours and provides strategies that enable them to use the opportunities available to them better. We will enable our customers to make more conscious and better decisions when deciding to spend, based on the envisaged consequences.

AO2. How is your advice delivered (e.g. face-to-face, web based or telephone)?

Our service is delivered as an interactive programme accessible 24/7

AO3. What is the legal, organisational and governance structure of your service?

We are currently a privately owned organisation, however we are processing to convert to a charity

AO4. How is your service funded?

Our service is currently unfunded but seeks commercial, public and charitable funding. Our service is structured to be purchased via user access over timed periods, saleable directly to the user or en-bloc via a front end service provider such as a bank.

AO5. How did you identify your customer and their needs?

Evidence of the very widespread and increasing need was identified via one to one mentoring over several years and subsequently in liaison with Egg PLC and its customers

B. What should the scope of a national approach to generic financial advice be?

These questions are aimed at understanding the way that organisations currently approach targeting and delivery of generic financial advice provision.

BO1. Who is your target market and how do you target them? How well do your actual clients match your expected target market?

Our current target market is all those with access to the internet who could better manage their spending. Our prime development is directed towards those who would benefit from better engaging with, and taking more conscious decisions about, money, spending and debt. Our current offering also helps develop a longer term, more planned approach to money management.

Our business has an active prototype used for market testing and is geared for product launch in July 2007

BO2. How many people use your service per annum? What sorts of questions do they ask?

Our operating business model is fully scalable

BO3. Do you know how many people you turn away? If so, is this a capacity issue or have they come to the wrong place?

Market testing indicated a very strong desire for a private one to one mentoring service and a strong engagement with our virtual mentor solution.

BO4. If you operate some form of “triage” or “sifting” of calls, what criteria do you use?

Our product involves an initial self analysis element which channels prospective customers towards resources appropriate for their needs. If the assessment suggests that the users current position would be better supported by other resource providers they are referred to alternative sites. In addition we provide a number of general self help advice areas.

BO5. What referral policy do you operate and how (e.g. boundaries with other organisations, relationship with others, potential issues to manage etc.)?

We refer both clients and potential clients to other resource providers where we believe good quality and appropriate advice is provided.

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BO6. What management information do you capture?

Our system captures a high level of data relating to each participant which is held in trust on their behalf. Management information is limited to details related to personal identification and system usage.

BO7. How do you monitor quality and consistency of advice given (e.g. quality control, customer feedback, complaints handling etc.)?

Our system has been developed based entirely on best practice under the directive of an expert team of highly qualified personal mentors. All Financial Advice, or advice in areas beyond our defined scope is referenced to other expert providers.

Customer feedback is encouraged via blog, forum and email.

BO8. How do you deal with questions of liability for inappropriate advice (e.g. indemnity insurance)?

Our product offerings are fully insured for public use. Our main objective is to enable people to operate more in their best interest. We do not sell or offer additional services. All advice is intended to be current “best practice”

BO9. What level and type of training do you offer for your staff (e.g. costs, duration, suppliers, accreditations, etc.)?

With the exception of administration all of our staff are fully qualified independent professionals. Corporate policy includes IIP best practice.

BO10. What are the payment arrangements for your advisors (e.g. payment levels) sponsorship, pro bono, etc.)?

Currently our directors work full time on a pro bono basis.

BO11. Who are your advisors (background, length of service, etc.)?

Joy Ainley BA ACA MSI- Behaviour expert

Joy is an NLP master practitioner with six years experience in this field, She holds a diploma in advanced hypnotherapy and psychotherapeutic approaches

Bill Garnsey BSc ACMA MBA – Business and Market Strategist BSc ACMA MBA

Bill has a wide range of experience in Finance, Strategy and Marketing , and project management.

Martin Roberts – Systems Analyst

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Peter Sheltrum– Business Analyst

In addition we have a panel of external expert advisors with international reputations

B12. How do you ensure that you work effectively with other organisations?

We have an open door policy with current and potential customers and other businesses and charities working to provide support for those in financial difficulty. We also continually monitor via the Web and attend briefings from others working in this field.

C. Cost and Funding

These questions are aimed at getting data on the costs of different ways of delivering a generic financial advice service. As well as detailed costs, the Review Team is also interested in quantifying benefits, including to different parts of the financial services industry, individuals and wider society.

CO1. What is your operational model?

Our operational model is an online provision providing an interactive analytical experience. The user can access the system 24/7 and would benefit best from regular usage. The system and user interact to identify behaviours which restrict the user from achieving best practice and then assist them in developing strategies and skills to overcome such barriers and enhance their performance.

Support is provided via E-Mail

CO2. What is the cost structure of your service (e.g. set up vs. Ongoing, Capital vs. Operational)?

We have invested in developing a suite of programmes that provide engagement, analysis and therapeutic interventions aimed at enabling users to better address their financial challenges. Our future costs are driven by the need to recover our current development costs and further support and continually develop such offerings.

CO3. How long did it take to set up the service from blueprint to launch date? Did you pilot it first?

Our service has taken some three years to develop with the current year being dedicated to developing the IT platform. The pilot model was first used in November 2006.

CO4. What are the components of your model and how do they relate to each other (e.g. telephone, face-to-face and online)?

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Our offering is primarily on-line. We identified the requirement for one to one mentoring and market analysis indicated that demand for such a service was limited only by cost. We have discussed with a number of crisis advice and commercial providers the concept of integrating our product as part of their offering. This would enable a telephone advice or support service to run in parallel with our product. Such an integrated support process has been greatly welcomed.

CO5. If you operate an online service, how many people use your site and do they have to pay to use it?

Our product will be launched with capability for 10,000 customers but in addition is configured in such a way to be fully scalable. As we are currently unfunded we will charge users either directly for three monthly packaged online access or via their current credit provider. In addition we are progressing with the development of a charitable business model.

CO6. Please provide information on the key statistics about your service (e.g. duration of session, average cost per session, approach to booking etc.).

Access to our service is block purchased for the first three months of access. Self analysis and behaviour change can be achieved in a short number of sessions and our work utilises methodologies which provide for accelerated behaviour change. There are, however, a proportion of users that would benefit from longer term support. In addition the continued access to both our self reflection and money management tools will act to maintain and encourage new behaviours.

CO7. How are you funded and what do you have to do to qualify (e.g. grant-in-aid, customer payments, commercial capital etc.)? How much do customers pay?

Our product will be charged either directly to users or through block purchases by intermediaries. A number of charitable organisations have suggested that should we be able to achieve government or charitable funding they would wish to offer the service to their clients.

CO8. Are you able to quantify the social / public policy benefits of your service?

As yet we are unable to quantify the social / public policy benefit of our service, but we believe that such a service will be key to reducing the social and financial divisiveness that results from a significant proportion of the populous continuing to developing poor financial management skills. In many cases the individuals poor financial behaviours result in increasing costs of finance

CO9. If your service is required to show a return on capital, what are the IRR and payback period?

We would target IRR at circa 10% payback periods within four years.

C10. How do you measure the effectiveness of your service?

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We measure effectiveness through customer and user feedback. We target to receive a high percentage of customer feedback as part of our online process.

D. How can potential users be engaged?

These questions are aimed at getting evidence on how consumers can best be attracted to using a generic financial advice service, including how they can be motivated to take an interest in their financial affairs before “crisis intervention” is needed.

DO1. What market research did you do before setting up your service?

Our market research was conducted via a number of sources. Directly through mentoring service direct to the public. Indirectly through research with a number of banking companies and liaison with charitable and NGO service providers. We have also undertaken market testing with a number of target users.

DO2. What approach to advertising have you taken at the various stages of the development of your service, (including an indication of level)?

We have not undertaken direct to the public advertising but will launch through a level of editorial and PR routes as well as internet links. We hope to achieve a range of media coverage at that time.

DO3. How has your service evolved over time?

Our operation has evolved from a proven one to one mentoring service into its current online structure and process. This evolution has progressed for three years.

DO4. How did customer usage build up over time?

N/A

DO5. Do you have information about what your customers do as a result of your advice?

In trial and market testing situations we have had considerable impact in providing users with both instant and long term behavioural changes that have allowed them both to address expenditure issues and to successfully moderate and change behaviour to enhance their spending management experience.

Supporting references are available on request from Bill.Garnsey@modelminds.com

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