



Norwich Union Life response to the Thoresen Review of Generic Advice
“Call for Evidence”
April 2007

Executive Summary

- The success of generic advice will depend very much on people taking action – it should not be seen as an end in itself, but is the first step towards the customer taking action to improve his or her financial position and to getting the financial products he or she needs, where appropriate, as a result of any advice received.
- Therefore, it is essential there is a straightforward handover process from generic advice to a service or provider which can help the user take such action.
- Unfortunately consumers have little enthusiasm to learn about finance, and a solution needs to be found that overcomes this barrier and increase demand. It is crucial any generic advice service encourages consumers to be receptive to receiving information and to actively use the resources available to them.
- Overcoming this consumer inertia will require an independent and trusted public marketing effort, using social marketing to deliver compelling messages to overcome individuals' inertia around financial planning.
- The Review should seek to promote a diversity of approaches to the delivery of generic financial advice - one size will not fit all in either the engagement of consumers, the delivery of generic advice or the empowerment to take action.
- A national approach for generic advice should therefore look to harness the benefits of existing infrastructures – in both private and voluntary sectors - and encourage a competitive market to develop. It will be important to determine which approaches work well for different types of consumer and different financial needs.

Introduction

Norwich Union looks forward to engaging with the Thoresen Review team as it progresses its analysis of delivery models for generic advice. We believe the opportunity to deliver a new style of advice, to fill the gap between the existing alternatives of no advice and regulated advice, could bring long-term benefits to consumers, the Government and the financial services industry.

While the Review's remit and, therefore, this call for evidence focus on the logistics of delivering generic advice we believe it is necessary to take a broader view and consider the delivery of generic advice services in the context of a wide ranging process which encourages and enables consumers to improve both their financial capability and their financial health. Generic advice will only deliver results if consumers are first persuaded to actively engage with the process and secondly, are empowered to take action to address their immediate and longer-term financial needs.

We believe the Review should seek to promote a diversity of approaches to the delivery of generic financial advice. One size will not fit all in either the engagement of consumers, the delivery of generic advice or the empowerment to take action. The Review should therefore look to leverage existing infrastructures – in both private and voluntary sectors - and encourage a competitive market to develop. It will be important to determine which approaches work well for different types of consumer and different financial needs.

The role of Government as a facilitator and funder of generic advice services will be extremely important. Government commitment must reflect the direct and indirect benefits which the state will reap from increased levels of financial health across the population. We do not, however, see a need for Government to create a completely new type of service to deliver generic advice, rather it should focus on stimulating consumer engagement and ensuring the right legal and regulatory framework is in place to allow others to deliver advice, through:

- a. using social marketing to provide a climate in which more people are ready to engage with generic advice services;
- b. providing absolute clarity about the boundaries between regulated and generic advice to give potential providers confidence to deliver generic advice; and
- c. creating an 'introductory portal' to financial development, through a limited scope service which is sufficient to inform and educate on a clearly-defined range of financial needs, with clear signposting to more extensive services.

The remainder of this submission addresses those strategic questions set out in the call for evidence where we can offer insight.

STRATEGIC ISSUES

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 on 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?

We are not aware of any services which match the depth and breadth of service covered by the Review. There are, of course, a wide range of services available which fit in this space. Most focus on information provision and, except in the lightly-regulated areas of debt and benefits, do not extend to personalised advice.

For example, Aviva (Norwich Union's parent company) recently launched an independent planning resource, www.six-steps.org, to help people make informed financial decisions by taking them through six straightforward steps towards planning a secure and healthy financial future. This is complemented by Norwich Union's website, www.makesenseofit.com which provides simple generic information about various types of financial products such as investments, retirement and pensions. This aims to increase people's understanding of their options and help them take action to address their financial needs, whether that's finding an adviser for full regulated advice or shopping around to buy or switch products.

On a broader scale, the FSA has been instrumental in piloting and delivering generic information services through its National Strategy for Financial Capability. Norwich Union is a long-standing supporter of this initiative, in particular the Workplace strand, contributing to the development of pilot capability programmes delivered through employers and providing a full time secondee and presenters to support the FSA as it rolls the programme out nationally.

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

The definition in the call for evidence captures the two essential elements of ‘generic financial advice’ – it should be personalised to add value to the customer, it should be unregulated (but not ungoverned) if it is to be cost-effective.

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

While there are some good examples of overseas programmes to improve consumer knowledge of financial affairs and provide information, we are not aware of any which offer a replicable model for delivering generic advice as defined by the call for evidence.

Although these examples cannot provide a full model we believe there are lessons about elements which have been shown to work. The US programme, Money 2020 (previously Money 2000), for example, worked well, according to the limited evaluation we have seen because it:

- engaged consumers with a tangible promise to help them sort out their debt and increase their disposable income;
- enabled users to simultaneously reduce their debt and start to build up savings; and
- encouraged users to commit to action through getting them to develop an action plan with achievable short-term goals.

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

The Resolution Foundation have published valuable research in the area of possible costs and benefits¹ of generic financial advice provision. We would nevertheless echo the call of the Work and Pensions Select Committee that more research is needed in this area, both to assess the impact of the introduction of personal accounts and to validate cost estimates. None of the current research has been able to access evidence based on trials of any proposed service.

In 2005 Norwich Union sponsored a report with the ippr, ‘Rethinking Financial Capability’ which highlighted the role of behavioural economics to ensure capability programmes focused on changing individuals’ behaviour rather than simply increasing understanding.

The report confirmed a central challenge is closing the motivation gap between what people say is important and their actual behaviour. Policy needs to take a two-pronged approach: providing the most appropriate advice and guidance to those who want it, when they want it; and providing the best possible structures to make it easier for people to take action when they have received this guidance.

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

There is a wealth of information, resources and guidance services already available to consumers, and the review should seek to harness the benefits of current provision as far as possible, to maximise the benefits of ‘cross-fertilisation’ and ensure significant resource is not spent on developing solutions which may already be available in a similar form. The current infrastructure of commercial and third sector provision could provide much of the resource needed, provided a robust business case is proven, allowing central Government-led activity to focus on any gaps or target particularly hard to reach groups.

¹ For example, “Closing the advice gap: Providing financial advice for people on low incomes”, May 2006 and “Potential impact of financial advice on the Financial Services Industry”, March 2007

Norwich Union therefore feels that the role for Government should focus on providing an overarching call to action for individuals, prompting them to take action by utilising existing sources of help and information. Creating a brand new organisation to promote and deliver generic advice would cost a huge amount and take a long time to gain public recognition and trust.

Rather, the Government should look to leverage an existing independent brand (perhaps the FSA, Bank of England or Citizen's Advice) to drive momentum and customer demand with a strong call to action and a limited high level advice service. Existing generic advice services could sit alongside this, and operate within the same regulatory boundaries under a kitemark scheme. The Government service would provide links to these private initiatives, and vice versa, to ensure all customers can easily find the service that meets their needs.

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 advice aim to serve including a view on segmentation?

Fundamentally, generic advice should aim to serve the widest possible market. Shortfalls in financial capability are not strongly confined to any one group of the population. While all generic advice services should operate within the same simple framework, a market-based solution will enable different providers to focus on groups where they have existing relationships and are skilled in communicating to and deliver advice on the financial issues in which they specialise.

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

We do not believe anyone should be steered away from initial contact. However, any service should be capable of quickly identifying customers with complex financial affairs which are outside the scope of generic advice and be able to refer them to external specialist advisers whether that be a commercial financial adviser or an agency specialising in, for example, crisis debt management.

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

A number of elements will be central to a high take-up rate for generic advice services. These include accessibility through appropriate media; a raised awareness that financial health can be improved and will bring tangible benefits; the development of trust in the services; and a recognition that the available services are easy to use.

The diversity of potential users' circumstances mean that a range of approaches is likely to be necessary. Using the variety of existing sources of advice underpinned by a Government-led call to action and kite mark scheme would be effective in meeting the needs of a range of consumers. To take the issue of access, for example, some will see the workplace as a convenient location to receive advice, others may not be able or willing to consider financial affairs at work; some will want to access services online, others will want personal contact either in addition or as an alternative to a web-based service.

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

Whilst generic advice should not explicitly discount any area of financial need nor discourage any individual from seeking help, attempting to address too broad a definition of generic advice could reduce its effectiveness as its messages may be diluted. Rather we would suggest generic advice should focus on the core areas of financial needs (debt, savings, insurance, family protection) in addition to information about how to prevent financial difficulties. Those customers with complex financial affairs or existing financial problems, such as unmanageable debt, should be referred to specialist advice services.

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?

Currently individuals or firms are not allowed to make recommendations to customers without straying into regulated territory. Regulation is costly and so there is effectively no 'middle ground' between an individual receiving no advice and personal face to face advice. If generic advice providers were able to offer simple unregulated recommendations then customers with simple needs could be efficiently served.

For example, generic advice services would not go as far as offering a particular product from a particular provider, but instead should be able to ask questions about a customer's financial provision, job, family and so on, and from this information recommend, say, that he reviews his protection and perhaps opens an ISA. The customer could then either seek full advice to help find a suitable product, or conduct his own research into the market and buy direct.

Any provider of any type of advice would need to be clear upfront to customers about its regulatory treatment, how this means they would be protected and any options for recourse. The regulatory framework should apply equally to all types of generic advice whether provided by the Government, charities or commercial companies.

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

The success of generic advice will depend very much on people taking action, where appropriate, as a result of any advice received. Therefore, it is essential that there is a straightforward handover process from generic advice to a service or provider which can help the user take such action. The importance of these referrals should not be underestimated since ultimately the success of generic advice must be measured on the level of action taken by individuals to address their financial situation, not just their level of financial understanding.

The destination of referrals will depend on the nature of the user's need(s). Where the user is in a crisis debt situation, then referral to a specialist advisory service would be appropriate. Where the user has established a need for a type of product, then referral to a commercial provider of that product would be appropriate.

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

The industry offers a variety of training courses and qualifications, and in its response to the FSA's Retail Distribution Review, Norwich Union will recommend that a single body takes responsibility for the formal training of advisers across the industry, in order to promote consistent standards and professionalism, and increase customer understanding to help them find the advice service they need. This body would oversee a number of levels of qualifications according to the depth of advice, ranging from product advisers to certified financial planners and cover a variety of specialisms (such as tax planning, retirement specialists and so on). It would be reasonable to

expect such a body to have the remit and authority to monitor the skills and competencies for providers of generic financial advice.

To ensure generic advice is as simple and cost-effective as possible, regulation and compliance requirements should be kept at a minimum – the industry should learn from Stakeholder which failed to meet its aims as the advice requirements attached to the products meant they were not cost-effective to sell to the target market.

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

As outlined above, a cautious, over regulated approach will increase costs and complexity and ensure the service fails to operate effectively. It is therefore crucial that clear, fair and simple legal principles for generic advice are agreed and consistently communicated and applied by regulators, providers, ombudsmen and consumers. The same regulatory requirements should apply to both advice delivered through any Government initiative, and to providers who wish to offer generic advice to their customers.

Historically the regulator and industry have both been cautious and prescriptive in its dealings with customers for fear of mis-selling based on misunderstandings. A new simple service with low risk of consumer detriment is an opportunity to modernise customer communications and help customers address their financial needs confidently.

It should be possible to recommend certain product categories for people in certain situations without fear of breaching any regulations – for example, life insurance for parents, income protection for mortgage holders, short or medium term savings products for those with no cash savings, or a range of investments for those looking to save for the long term. All parties will need to agree these principles before a service is implemented, and recognise that, whilst no one hierarchy of needs will be the most suitable for everyone, any action is almost certainly better than none at all, in order to secure a simple regulatory landscape.

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

A commercial business case is yet to be identified, and could only be confirmed following any pilot of a generic advice model. If the generic advice service includes clear handoffs to advisers and providers who can help customers address the problems they identify, there may be a positive impact on advice providers as there is a clear and easy route for customers to access advice.

Without a clear route to follow to access advice or product information, it is likely inertia would prevent the majority of consumers from following up on the information and taking action. Therefore, it seems reasonable to assume that a service which only goes as far as increasing customers' understanding of financial issues, without a stimulus to action or handoffs to advice providers, may not have a significant impact on demand for advice.

Cost and funding

These questions are aimed at getting data on the costs and benefits of a generic advice service. As well as detailed 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?*

There are disadvantages to both a free and a charged-for service. A free service may discourage take-up, because some people perceive a free service as offering little value, conversely it may encourage over-use by heavy repeat users. A charged-for service, on the other hand, is likely to discourage take-up, particularly among those most in need of financial help. On balance, we believe that the service needs to be free at the point of delivery in order to maximise take-up.

CS2. *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)?*

We believe there could be a commercial case for a generic service, although it has yet to be proven in detail. The case is likely to rest on both the prospect of more customers buying more products and, perhaps more importantly, the long-term benefits of more financially-capable customers with a better understanding of their products and a willingness and ability to address financial needs as they emerge over their lifetime. The commercial case is also likely to be stronger if existing brands are involved in the delivery of generic advice and are able to build deeper and stronger relationships with their customers.

It will not, however, be possible to fully assess the costs and benefits of generic advice until there is greater clarity on the drivers of both cost (including the process which needs to be followed before personalised advice can be given) and potential benefits (including the nature of the products that can be easily sold as a result of any handover from a generic advice service).

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

The wider benefits of a generic financial advice system are yet to be proved, and accurate forecasts could only be gained from piloting a scheme to test the proposed national one. It would be reasonable to assume benefits would be greatest to society and the Government, as increased financial engagement and planning ahead would be likely to ensure people will be less reliant on the state pension and benefits, and more able to cope with unexpected financial setbacks such as illness, unemployment or disability.

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?*

Funding for any generic advice service must be fair, sustainable and transparent. In principle, the calculation should take into account both the contribution a particular sector makes to the service's workload, and the benefits it may receive as a result of the users acting on recommendations. Credit providers and the introduction of Personal Accounts are likely to provide the bulk of any service's initial workload and should be involved in the financing calculation accordingly. It is particularly important that the cost of generic advice to support decisions about opting out of Personal Accounts – and the Government now portrays the availability of such advice as an essential precursor to the introduction of Personal Accounts – is fully included in the product cost.

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.

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

Unfortunately consumers have little enthusiasm to learn about finance, and a solution needs to be found that overcomes this barrier. It is crucial that consumers are encouraged to be receptive to receiving information and actively use the resources available to them to improve their financial skills and ultimately take action to improve their financial position.

Creating momentum and acceptance among individuals of the need to take control of your finances requires an independent and trusted public social marketing effort to deliver compelling messages to overcome individuals' inertia around financial planning.

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

The need for a new brand for a generic financial advice service has not been established. Building a new brand from scratch and embedding it with the legitimacy and credibility which will be essential to attract consumers will be both expensive and time-consuming. A better approach may be to couple the credibility of existing brands with a social marketing campaign, led by an existing Government brand, promoting a strong call to action. This should also provide handoffs to existing sources of information in a kitemark scheme, to provide trust and reassurance for, in particular, customers who have little experience of engaging with financial services.

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

Generic advice is likely to have a wide target audience and customer base, covering a broad range of skills and people with varying experiences of interacting with financial products, services and advice. To be as effective as possible, generic advice should be delivered through a variety of approaches and therefore it would be most appropriate to deliver generic advice by a range of competing brands. This will ensure existing skills and infrastructures – both private and voluntary – are leveraged, and encourage a competitive market to develop where firms and charities pilot, develop and tailor their services to meet the needs of diverse groups of customers.

A completely new, Government-directed service should not therefore be seen as the simple solution for all the needs of the target market, rather, the Government should focus on:

- promoting consumer demand to use generic advice services by developing social marketing to provide a climate in which more people are ready to engage with generic advice services;
- ensuring the right legal and regulatory framework is in place to allow others to deliver advice,
- promoting a call to action to drive customers to services which help them identify their high level needs, with clear signposting to more extensive services to allow users to easily take action on any recommendations.

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

A positive change in consumer behaviour should be the main measure of success for any new generic advice provision. Generic advice is not an end in itself, but is the first step towards the customer taking action to improve his or her financial position, which may include getting the financial products he or she needs.

Generic advice could potentially contribute to such a change in consumer behaviour if it is coupled with a wide-ranging and innovative campaign to raise awareness of financial issues and, therefore, drive consumer engagement. This must be shaped and delivered in such a way that consumers are able to quickly and confidently move from an understanding of their needs to a simple product purchasing process. This is likely to require providers to develop simpler and more easily understood products in addition to providers themselves becoming easier for consumers to engage with.

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)?

It would be costly and time-consuming to establish a new organisation purely to deliver generic advice. As outlined above, a more efficient and engaging set up would be to use an existing Government brand to deliver a national social marketing campaign as a call to action to use generic advice services. This would provide links to a high-level Government service, and operate handoffs to kitemarked existing private or third sector generic advice services. This would ensure a common approach and standard for generic advice, with the benefit of a variety of delivery models and the ability to leverage the existing customer relationships between providers and charities.