



Response to the Thoresen Review of Generic Financial Advice

ifs ProShare was founded as a not-for-profit organisation in 1992 by HM Treasury, the London Stock Exchange and a consortium of major companies to "promote responsible share based investment, including employee share ownership, primarily through education and research."

It has been a part of the *ifs School of Finance* since March 2005 and is now a not-for-profit membership organisation that provides voice for the Employee Share Ownership (ESO) industry. Our aim is to support ESO and financial education in the workplace and to represent the industry to policymakers, the media, the European Union and other regulatory and statutory bodies.

In October 2006 *ifs ProShare* established a working group called the Workplace Financial Education Group (Wofed) comprising members and external bodies, including the FSA and DWP.

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

Many groups are currently struggling to access financial advice. This is primarily due to high levels of financial incapability and the costs involved in delivering regulated financial advice.

We therefore believe that the target population should be future generations through statutory personal finance education in schools – to combat widespread financial incapability - and for the existing adult population, the UK's 29 million employees, through workplace financial education.

BS3: What are the best ways of reaching the target market; and DS5: For face-to-face advice, are there any particular locations that would be attractive for different segments of the target market?

Reaching the target market will require a number of different communications approaches for example, web-based, telephone and face-to-face communications. *ifs ProShare's* work through Wofed has examined this issue in some detail and concluded that face-to-face communications produce the most effective outcomes - positively influencing consumer decision-making. It is also clear that workplace provision is the most cost-effective means of delivering face-to-face advice. In terms of effective delivery of generic advice models, the workplace should therefore form an integral part of the Governments' strategy.

However, there are barriers to this taking place, for example, FSA regulation and a lack of an easily accessible financial incentive for employers.

- *FSA regulation of advice:* In spite of the Treasury consultation, the FSA regulation of financial advice is still seen as an obstacle to firms considering whether to provide advice and information. The introduction of MiFID makes clear certain activities, which can be provided through employers without falling into the scope of FSA regulations, although this list is not exhaustive. Furthermore, FSA research has revealed huge consumer uncertainty about when they are receiving advice even when they are not. In *BS9* the call for evidence asks for views on the legal implications of providing generic advice. Our member firms are already struggling with this issue in light of the suitability tests, which are applied to financial advice and the potential liabilities arising where employees are given poor advice.

We look forward to seeing how the boundaries of the generic financial model will fit with current regulated advice, as this may prove useful in removing current obstacles to the provision of workplace advice.

- *Ineffective fiscal support.* At present employers receive little by way of financial support to encourage the delivery of workplace advice. Recent changes such as the tax relief for workplace pensions advice, introduced in the Pensions Act 2004, have proved to be bureaucratic and unworkable. As a consequence such measures have received very low take up. Similarly, any generic financial advice model that is free at the point of use as raised in CS1 and CS2 (where presumably the employer or product provider would be expected to support provision financially) is unlikely to be welcomed by employers, particularly those firms (such as SMEs) which already struggle to offer employees financial information.

BS4: What should be the content of generic financial advice?

The value of the generic advice model is that it should be as broad-based as possible in promoting a more holistic approach to financial planning. Of course, it is important that generic advice providers should be limited in the extent to which they can use those materials to offer personal recommendations. As part of a holistic approach, materials should help guide people through all their financial needs and should be inclusive of advice relating to debt, insurance and savings products.

It should also encourage people to think more about other financial benefits they might have access to through their employer. The generic financial advice model should recognise that work-based group schemes covering pensions, life insurance and savings vehicles, such as Share Incentive Plans (SIP) and Sharesave (SAYE), provide a major source of the UK's private provision. As group schemes are typically offered as part of a wider benefits package they already broadly accessible yet take up rates could be improved.

From our perspective relating to employee share ownership, we take a focused view of what information requirements employees in our member firms need. Employee share plans can involve complicated issues involving tax and financial planning. Ideally, we would like any generic advice model to include some reference to share plans as they are a low-risk way or investing for the long-term in stocks and shares. We do recognise that this is just one aspect of financial planning. However, if people within the target audience are able to access such schemes, then any additional access to advice and information on the risks and rewards attached to employee share plans would be beneficial in improving take up.

Through Wofed we are currently examining what role employers should undertake in developing the contents of workplace advice and information tools as a means of promoting greater employee participation rates. Primarily, any contents need to be appropriate to the needs of the individual user and pitched at the right level in reflecting the different levels of financial capability amongst the adult population.

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

Employers could certainly refer employees in the direction of generic financial advice. Although some employers may find that because of their size or the nature of the work or working patterns it may be difficult to provide cost-effective workplace education on an all employee basis. However, such problems are not insurmountable as demonstrated by some of our member companies, for example Orange Limited, who rolled out a modular online personal financial programme taken by 60% of their UK employees.

**BS7: Where should people be referred to after receiving generic financial advice?
Should it be possible to refer people to a commercial provider?**

From the experience of *ifs ProShare* members, many of whom may already provide generic unregulated information to promote understanding of their own workplace schemes, it would seem that the natural progression from generic financial advice would be to regulated independent financial advice. It is unlikely that direct referrals to a commercial organisation – either in the form of a financial services provider or the individual's employer – would produce desirable outcomes. Furthermore, given the regulatory liabilities of providing unsuitable advice it is highly unlikely that any such organisations would wish to accept such referrals.

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

By making the provision of personal finance education a statutory requirement for all secondary schools. There is a wealth of evidence to confirm that doing so would dramatically improve levels of financial capability and yet Government remains committed to taking a non-statutory, non-examinable approach to financial education, which we do not believe will achieve any significant improvement in levels of financial capability.

Consumers who are also in the world of work (75% of the adult population) and who will not have benefited from financial education in school could best be encouraged to improve their financial capability and take a greater interest in their finances by their employer. For example, in the context of understanding specific financial benefits they are entitled to through work (for example, employee share plans and other benefits) or more generic information about how to manage a budget or understanding how to avoid unaffordable debt.

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