

Response to Thoresen Review of Generic Financial Advice

Family Investments is pleased to give its views in response to the Thoresen Review of Generic Financial Advice (GFA). Family Investments is the trading name of Family Assurance Friendly Society which since its formation in 1975 has concentrated on the promotion of simple and affordable savings products to the mass market. We are now the leading provider of the Child Trust Fund (CTF) and our stakeholder CTF plans are taken up by all socio-economic groups throughout the UK. The CTF is a universal product in which every child born after 1 September 2002 is essentially given what amounts to free money to put in trust for their children so that the latter have some money behind them to start their adult life. The key difference between the CTF and other financial products is that the CTF has a built in safety net which ensures all children get one. Clearly this is not the case for other financial products.

As a provider of this universal product we are therefore ideally placed to see the problems that the current lack of GFA causes to the broadest possible cross-section of society, including those less financially sophisticated groups for whom the introduction of a national GFA scheme will be most meaningful. As an Execution Only provider of a regulated product, we frequently find ourselves in the frustrating position of being constrained in the advice we can provide to customers and potential customers.

In our view, there is a great need for generic financial advice if customers are to be encouraged to take greater responsibility for their financial affairs. It is clear that any national GFA scheme will require a consensus on the definition and delivery of GFA. This advice should be targeted and integrate existing knowledge and best practice from the private sector and voluntary and not for profit sector (third sector) organisations that work closely with the financially excluded and the financially less sophisticated. From work we have done with the third sector, we are of the view that such organisations should play an important role in developing a national scheme of GFA given that the significant level of trust that they enjoy gives them the ability to overcome the instinctive wariness with which many approach financial services.

Indeed, an understanding of the importance of building and leveraging existing trust should lie at the core of any national GFA scheme.

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

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?

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.)

AS1 & AS2: There are a number of sources of generic financial advice in the UK ranging from structured provision, from sources such as the BBC Financial Health Check and the FSA website, through to help lines - such as that provided by HMRC for the Child Trust Fund - to less structured advice provided by charities such as Citizens Advice Bureau and National Housing Federation. Finally, there is the support and advice provided by family and friends. We do not see the internet as a particularly useful tool for delivering GFA. Although it has the advantage of being controlled and cost-effective, it is not universally accessible to the very people we need to target.

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

AS3: Current GFA provision is wholly inappropriate given the increasing importance of financial services to everyday life and the estimated 10 million people in the UK currently unable to engage effectively with the industry. As a provider of a universal product our customers and potential customers have been particularly affected by this lack of provision.

As part of our broader efforts to improve take-up of the CTF scheme among lower income groups, we have engaged with a number of third sector bodies who are active in the area of financial inclusion and the negative impact of a lack of an effective GFA scheme has been universally referenced as an issue that should be urgently addressed by Government.

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

AS5: We are broadly aware of work done by the Resolution Foundation which has been prominent in the area of generic financial advice. One of its proposals being the establishment of a national GFA helpline. Also work done by the Financial Services Research Forum including a paper on Consumers and Technical Advice in the UK.

We have ourselves also carried out and commissioned related research into how to encourage those on lower incomes to engage in financial services that we would be happy to share. Conclusions from this research include the insight that it is mothers rather than fathers who make decisions related to CTFs.

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?

AS6: The present provision of generic financial advice is incomplete, sporadic and least accessible to those who need it most. The current structure falls far short of what is needed if in-roads are to be made towards improving the financial capability of the estimated ten million British people considered to be insufficiently financially capable. Through our own work on financial inclusion as it relates to the Child Trust Fund (CTF), we have come across a wealth of expertise and good practice in the third sector that will be very valuable to the design and running of a GFA scheme.

The Government and private sector can only go so far, while the third sector is closest to those in real need of GFA but is chronically under-resourced. Many third sector organisations – particularly community-based and focussing organisations - will be able to provide Government with valuable insights from their direct experience of helping the less financially sophisticated. In order to ensure that these insights are captured we suggest that Government consider carrying out a formal audit of the types of services currently being provided by the third sector and introduce a GFA scheme that replicates these services as appropriate at the national level.

For example, in the work we have carried out to establish how to raise CTF uptake, we found that the TUC has a full programme of improving adult financial literacy while the Citizens Advice has developed a 'super trainer' programme whereby one very qualified person is able to train staff at SureStart centres to a level suitable for answering basic queries related to financial exclusion.

A national helpline will be an important basic provision but there will also likely be a need for face-to-face advice giving, for example with black, minority and ethnic (BME) communities.

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

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

BS1: The introduction of an effective GFA scheme will require an understanding of who is likely to be seeking what advice. In broad social terms, the data show that those facing financial exclusion will often

be those from social categories D and E. The structure and promotion of GFA should reflect this, but also assist across the spectrum and focus on points where financial decisions need to be made – mortgages and pensions being obvious examples.

In the specific case of CTFs, for example, it is likely that new parents, primarily mothers, will seek advice. Steps should be taken to both publicise and ensure accessibility to this group in a way that caters to them specifically. Similar arguments would intuitively have value in relation to pensioners and the new Personal Accounts and to BME communities.

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

BS2: Whilst it is likely that generic advice will be most useful to the less financially sophisticated, it should be available to all in society. That said, resources should be concentrated on those on lower incomes in terms of the style and placement of publicity related to GFA. The likelihood is that if GFA were offered through the voluntary and third sectors, resources would be almost universally directed at the desired target audience.

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

BS3: Getting the answer to this question right is the key to a successful GFA scheme. From CTF experience, a telephone advice line is part of the solution with direct, face-to-face contact in cases where this is most appropriate.

For each group, the Government must seek to leverage the trust that has been built up by community groups and existing service providers such as care visitors and other social workers, those who work in SureStart centres and similar organisations. Paradoxically the way in which the provision of generic advice is rolled out cannot be generic. That said, a combination of direct communication through advertorials in locations frequented by target communities and awareness-raising with community workers and public servants is likely to be a common thread.

In terms of awareness-raising among trusted professionals and community workers, the previously-mentioned 'super trainer' scheme run by the Citizens Advice provides a useful example of how this can be done. In our view, Government should consider adapting this scheme so that relevant inspectors and auditors of commonly-used services are able to give basic guidance on accessing GFA as part of their other duties.

Finally, storylines within soaps such as Coronation Street or East Enders would also be useful to help promote the availability of free advice and how to access it.

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

BS4: It is absolutely crucial that those who provide GFA understand the at times subtle distinction between advice and marketing. The Government will no doubt give careful thought to making this distinction across the wide range of financial services that will need to be covered by any GFA scheme.

As a Friendly Society whose principal business is in savings products, we are not in a position to comment on, for example, mortgages. We do, however, have views on what 'generic advice' is in the context of CTFs and other similar products such as pensions and which, in essence, centre on telling consumers that stakeholder products are what amount to a default option for those engaging with financial services for the first time.

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?

BS5: The Government should consider working with trade associations such as – in our case - PIMA and the Association of Friendly Societies as part of the process of agreeing what counts as generic from the perspective of the private sector. This will be crucial as the private sector is the area from which opposition to any scheme is most likely to originate.

For consumers, discussing the meaning of GFA is likely to be as much of an educational process as their specific, financial services related questions. They will however be helpful in fleshing out the specific areas in which GFA is most needed/desired and may potentially throw up unexpected insights into how it can be best delivered and promoted.

Consumer bodies and other third sector bodies are likely to be the more helpful in this regard, but we would caution that the private sector should be the focus of discussions about what is defined as generic.

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

BS6: Please see our answer to question BS3

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?

BS7: It would be inappropriate for a provider of GFA to refer people to a specific provider. However, people could be safely referred to 'stakeholder' products which can be found from a wide range of providers and essentially all work the same way so the customer can buy with confidence.

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

BS8: GFA training should be provided by the Financial Services Skills Council who should enlist the help of commercial providers. In particular, encouragement should be given to employees of commercial providers to support GFA in the workplace and through the voluntary sector. The aforementioned 'super trainer' programme run by Citizens Advice should also be examined.

Given the rapid growth and evolution of the financial services industry, it is vital that the training of providers of GFA will require constant updating if it is to remain relevant. This should be built into the fabric of the scheme from its inception.

Assuming that the process for distinguishing between generic and other financial advice is effective, any certification process should be more along the lines of that undergone by Citizens Advice advisers rather than the more rigorous certification process undergone by Independent Financial Advisers (IFAs).

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

BS9: A principal advantage of a well-developed GFA scheme is the lack of legal implications for its provision. The increasing importance of financial services in everyday life, and the high number of those adjudged to be experiencing a deficit of financial capability, denote the need for GFA. It is to be hoped that there will be consensus on the range of questions that those seeking GFA can have answered and the form that those answers must take.

If providers of GFA deviate from the agreed range of answers, then the certificate can simply be revoked with no further steps necessary.

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

BS10: A new GFA scheme will expand and improve the market for financial services and thereby act as a spur to greater competition, leading to greater adoption by providers of products directed at those on lower incomes – such as the stakeholder suite of financial products.

C. Costs and Funding

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

CS1: Ideally GFA should be free at the point of delivery otherwise there will be a danger that it will not be used by those who need it most. The funding could be provided through a levy on the private sector that reflects a given company's market share. However there may be a case to introduce a low fixed fee for the use of the service. In part commercial providers already provide some GFA to customers and this should be encouraged but it is difficult to envisage a stand alone commercial GFA service.

Additionally, a stand alone commercial service could be open to accusations of abuse over time and would likely require more intensive regulation than one provide by the state.

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

CS3: In time, a better informed public will hopefully lead to an increase in personal financial responsibility. This should not only reduce some of the burden on the State but should also produce a more confident and less dependent society.

In terms of quantifiable indicators, we would expect to see a lowering in the number of personal bankruptcies, an improvement in the savings ratio, an improvement in the lapse rates on financial products, greater solvency among lower income groups and therefore greater spend in the areas they inhabit. We would expect these to be most marked among young adults, those on lower incomes and pensioners.

The CTF is designed to get people into the savings habit and our experience is that the desire for GFA is very strong.

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?

CS4: For the private sector, we would suggest a levy decided by the size of a given stakeholder's turnover. Given the crucial importance of introducing such a service, we would hope that the Government would make up any shortfall.

D. How can potential users be engaged?

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

DS1: Consumers must be encouraged to see that an improvement in their financial capability is in their own interests and taking greater personal responsibility will not act against those interests i.e. conflicts with the benefit system will need to be removed. This is most likely to be achieved if those who are already sources of trusted advice – care workers, teachers, community groups - are convinced of the importance of financial capability,

Family Investments is in the process of exploring how outreach to third sector bodies, in particular, for the purposes of encouraging and improving financial capability might be systematised and would be happy to cooperate with Treasury in this regard.

Our experience shows that branding and presentation is extremely important to making a given product or suite of products attractive. Financial services are seen by many people as complicated and 'boring'. As a family-focused provider, Family Investments has attempted to overcome this through the use of the Mr. Men characters for branding purposes.

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

DS2: Advertising campaigns along the lines of those utilised to encourage people to seek treatment for drug addiction and pay road tax, or that dissuading people from benefit cheating are also effective. The key is that the message be simple, direct and relevant.

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

DS3: Our experience suggests that such a brand should be non-threatening and seek to convey independence, competence and, most importantly, trustworthiness.

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.)?

DS4: The evidence we have is that direct mail remains a cost effective engagement mechanism for many and that local radio can be useful in promoting locally based solutions. The simpler and more direct the message the better. 'Word of mouth' will also be an important feature which puts an emphasis on providers of GFA to provide a satisfactory service.

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

DS5: We refer to you the answer given in response to BS3, but we would expand on this to say that specific locations that should be considered include job centres, post offices, medical centres, parks and child care centres and Sure Start centres. The Government should seek to integrate GFA in the move towards providing 'one-stop-shops' for public services in locations such as shopping centres and medical centres.

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

DS6: Generic advice provision – if combined with structures designed around what motivates people to become engaged with financial products - has the potential to lead to a change in consumer behaviour as

long as the consumer believes that acting on such advice will be in his or her interests. If this is the case it should result in a general increase in confidence with regard to financial matters.

E. What should the governance arrangements look like?

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)?

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

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

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

ES1 – ES4: The Financial Services Authority should be the lead organisation. The success of the scheme will be determined by the quality of engagement with the consumer seeking advice which doesn't lend itself easily to measurable targets.

If it is decided that the GFA service should be partly funded by existing financial providers then this will probably be best determined by levy in proportion to market share.