

18 January 2008

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Dear Otto

Thorensen Review of Generic Financial Advice: Interim Report

IMA welcomes the Interim Report and thanks you and your team for giving us another chance to comment on the strategy for the introduction of a generic financial advice (GFA) service in the UK.

Since our initial response to the Call for Evidence, we have listened to some telephone calls from members of the public to the prototype helplines you set up, which was an illuminating and useful exercise.

Our main points at this stage, are:

1. Success measures are still vague for the individuals using the service (ref 2.28). It is, therefore, still difficult to assess the extent of the benefits of such a service in terms of gains for the Government and for businesses. In short, better cost-benefit analysis please.
2. Pending more in-depth analysis of the likely costs, a fair allocation of costs to funders of the service must be carefully considered and presented. With its current focus on those with low incomes, the GFA service will be in large measure a public good and as such should mainly be funded by Government.
3. There is strong case for saying that the Government's aim of increased self-provision would be achieved more effectively by also targeting those who can save, but choose not to, or don't save enough – assuming they are willing to take advantage of the service.
4. The distinction from the commercial sector must be very clear. IMA believes that the quality of the proposed GFA could be seriously compromised by any association with sales. GFA should be independent of any provider of regulated

advice or products. We therefore also urge that the words, guidance and information are used instead of generic advice.

5. The calibre of those giving GFA over the phone or in person is critical. Hence there should be a rigorous approach to training and assessment.
6. Building on the existing landscape and engendering a partnership approach to referrals and signposting is a practical way forward. The development of a national GFA service must not be about bureaucracy building, but a pragmatic, cost effective and sensitive approach to meeting individuals' demand for help in managing their personal finances during their lifetime.

We expand on these points in the attached paper, which also seeks to address the questions posed in the report.

I hope you find these comments helpful. Please, do contact us if you would like any further input. Meanwhile, we look forward to seeing your next report.

Yours sincerely

Victoria Nye
Director, Training and Education

Thorensen Review of Generic Financial Advice: Interim Report IMA Response

1. Existing Landscape

This is an interesting overview showing the considerable scope you have to build on existing provision. The debt advice area is clearly well-supplied and the gap in forward planning advice is rightly identified. However, there may be a very good, demand-oriented reason for this, that people tend to live from day-to-day and avoid thinking ahead. The same message can be drawn from the fact that even those who could afford financial advice place a very low monetary value on it.

We suggest that further analysis on the costs versus benefits of the different models outlined in this chapter would inform the cost projections in chapter 5.

You mention the demand for advice on tax and benefits. Are you looking closely at the service HMRC provides in this area? The Individuals Customer Unit is trying to improve its services and collaboration with the GFA team in certain areas could be mutually beneficial.

2. Target Groups & Engagement Strategy

2.1. The analysis of UK adults according to their financial vulnerability represents a good starting point to assess the likely GFA needs and the ways of engaging different groups of people. What further pieces of evidence, or data sources, could be used, aside from the output from the pilots, to enrich your understanding of who will benefit from GFA?

IMA agrees that the service should be open to all and also agrees that more “vulnerable” consumers can be identified as a priority target audience for the GFA service, as we stated in our response to the Call for Evidence. However, it is important to remember that those on low incomes are, according to the FSA’s Baseline Survey in 2006, relatively good at budgeting. Furthermore, those on very low incomes do, at least in theory, have access to debt management and benefits advice already. In some cases, the “vulnerability” is due not to a lack of financial capability, but simply to a lack of money. You may find that the value-added from a GFA service is higher for individuals who do have some money to save but do not know where to start.

Comparing the 7.5m deemed financially vulnerable with the greater proportion of the population who do have some money to save but for various reasons choose not to, and considering the classic 80/20 rule, it would seem that the Governments’ aim of increased self provision would be achieved more effectively by also targeting this group, perhaps requiring the Review to have two streams as the requirements for advice differ significantly. There would also be more upside for the wider financial services sector from this ‘can save, don’t/won’t save’ group, which, positioned at the margins of our firms’ existing customer base, in turn could lead to more appetite to help with funding.

Listening to calls, it was clear to us that the range of enquiries was very diverse. Many were specific, such as how to secure credit for a particular purchase. Typically, these were answered in a straightforward manner with reference to comparative tables and to further relevant sources, but the skill of the call handler should be to encourage someone who has called about a particular problem to think more holistically about their finances, do some forward planning and take constructive action. Call handlers should use specific queries as an opportunity to introduce the benefits of financial planning and to try to sow the seeds of long-term improvements in behaviour.

2.2. Have we correctly identified the outcomes that a successful GFA service should aim to deliver?

The outcomes you list under 2.28 are good, but will be hard to measure. We agree that:

- a. looking for the establishment of “active budgeting and savings habits” should indicate a sustained improvement.
- b. It is right to put the awareness of budgeting and savings principles ahead of product knowledge.
- c. More active questioning and planning is a good outcome as long as it leads to an understanding of what products and services, including advice, can offer in relation to personal need. There are four basic product areas: loans, savings, insurance and investments. It is vital that individuals are able to see into which category more complex products fit.
- d. Keeping up to date, including regular reviews of need, is an important outcome, but for this to happen there may need to be some added triggers and incentives, aside from the availability of free GFA, to encourage a forward planning culture.

2.3. What sort of approach would be the most effective way of engaging customers in GFA – both initially and in the longer term?

We support branding of the service, but so as to complement existing services not to overpower them, and to ensure that the “on my side” or “impartiality” aspect is emphasised. The brand name needs to use words that are common parlance and correct – generic, financial and advice are not. We suggest that words such as money, information and guidance would be more readily understood.

The quality of the service, if it is high and consistent, will generate demand through referral. On the other hand, poor service will undermine it almost irrespective of the amount spent on marketing. So, we favour your suggested ‘viral’, ‘need areas’ and ‘trusted intermediaries’ approaches. The service needs to grow in line with demand, which in turn should be firmly based on a build-up of awareness and trust in its value.

For a new example of “trusted intermediaries”, you could refer to FSA’s trial distribution of its Parents Guide to Money via midwives and health visitors. Health professionals need expert back-up if they are to retain respect as they bravely broach the often sensitive issue of parents’ potential lack of financial capability.

As we mentioned in our response to the Call for Evidence, very few people are likely to call simply for help in general financial planning. Having your first baby is a trigger, as

FSA's research is already demonstrating. Another major hook is pensions provision or, more precisely, the offer of a pension in a new job, and this is likely to become more significant in the build up to Personal Accounts. Again, building on existing provision, the GFA service should be fully prepared for questions about pensions and long-term savings. If this aspect goes well, there will be real benefit for Government, and this should be taken into account when considering who pays for the service.

3. Designing the National Approach

3.1. Have we identified the appropriate parameters for GFA? What evidence exists to support the case for a "deeper" service?

The parameters you propose make good sense, with signposting and guidance as key processes. In this way one can build on the expertise already available in the market while encouraging individuals to take control and think for themselves.

There are clearly concerns about there being too many stages between the information and the call to action (ref: the AXA/Warwick research on Turning Good Intentions into Actions). However, the constraint is the need to steer clear of regulation. IMA made the case for a clear separation of GFA from any product recommendations in its response to the Call for Evidence, insisting that you should drop the use of the word advice in favour of guidance or information.

One positive outcome of GFA would be that those who have sufficient funds realise the benefits of regulated advice, particularly in relation to long term savings and investments. A clear distinction between regulated advice and the GFA service is essential.

3.2. What sort of accreditation and training would be the most effective way of ensuring accuracy, quality and consistency of GFA information and guidance?

The experience of listening to the prototype services' calls underlined our view that accreditation and training is vital to the success of the GFA service. The advisers were friendly, but naive. More life experience and perspective would be preferable. Young people may be trained accordingly, but others could be recruited with inherent skills to build upon.

Given the drive for a national brand, the reputational risk from errors or simply a low quality service is very high. Careful monitoring and individual assessment will be critical, including reference to central benchmarks to ensure consistency. Good practice sharing between different providers should be encouraged.

Also, the content of the guidance must be carefully prepared and overseen. To achieve accurate content in the tools and information used as part of the GFA service and the right level of expertise amongst the call handlers and consultants, you could play to the strengths of trade associations in terms of their subject knowledge. IMA itself would be

pleased to help prepare training programmes and check content on investment. We already have a guide called *Introducing Investment*, (the web link for which is <http://www.investmentuk.org/investors/default.asp>), which gives an indication of the sort of information the GFA service might impart to individuals.

3.3. Views on the organisations which could play a role in the hybrid model, either on behalf of the main organisations under a contractual arrangement, or as jointly labelled accredited partners?

None in particular, but please see paragraph above regarding the role IMA and other trade associations could play in the delivery process.

3.4. How could commercial providers benefit from delivering GFA in their premises? For example, does the delivery of GFA in a commercial setting improve the levels of motivation to take action and execute a plan?

As mentioned above, commercial providers' involvement might appear to be a means to meet your objective to engage more individuals in financial planning and to buy products as appropriate. It might get that job done at an acceptable price. But the flip side would be that people would still be likely to buy products they do not understand, less likely to take responsibility for their future and less likely to ask ongoing questions about suitability or cost. IMA therefore believes that the GFA service should be delivered by a truly independent and financially disinterested body, presenting information and guidance in a way that is relevant and unequivocally beneficial to the consumer, even if that means that the service takes longer to develop. Quality is more important than size in this project.

4. Governance

4.1. Should a GFA service be delivered by a new organisation, and if so, should that organisation be a public body?

4.2. Should a GFA service be delivered by an existing organisation – not necessarily a public body – with an established “brand” that is capable of being widened to encompass the objectives of a GFA service?

4.3. Which existing organisations should be considered candidates for scaling up capacity and expanding their brand to deliver the vision of GFA set out in this report?

As stated earlier, and in our response to the Call for Evidence, IMA believes in building on the good quality examples of GFA that already exist and in learning from their practice. Citizens Advice is an example of the kind of organisation whose expertise can be harnessed. However, IMA also believes that central oversight by an independent, but informed and newly-constituted board is necessary to ensure a consistent service and cost-effective delivery.

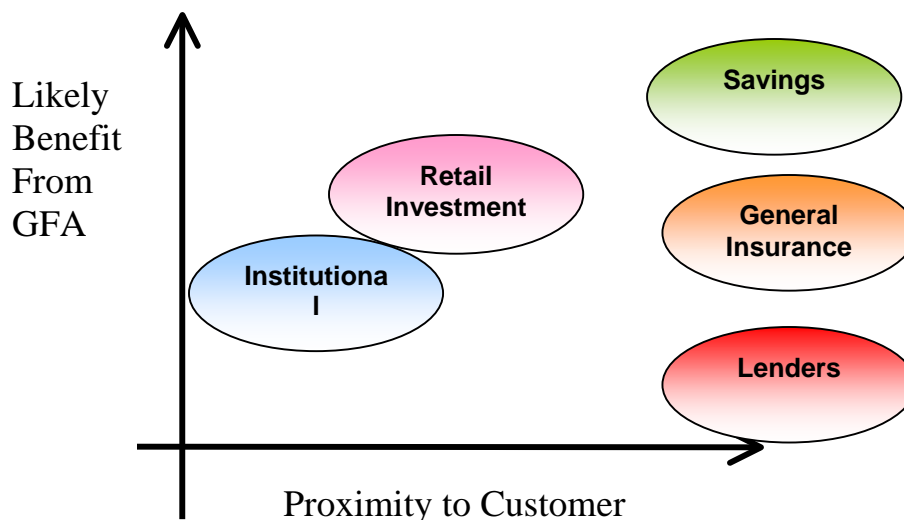
5. Costs and Funding

Before addressing the questions posed in the report, we have some general comments on your work to-date:

- There is clearly more work to be done on the analysis of the costs and benefits of the service, especially following the pilots. This should aim to increase potential funders' (including the Government and businesses) propensity to contribute. As stated in our response to the Call for Evidence, IMA members are willing to contribute to strategy and content relating to investment, but they are unwilling to fund the GFA service, seeing it primarily as a public good. That there is limited upside for the funds industry (see Otto's letter to the Treasury which states *"We need to help people with the basics. Understanding what an APR is, what a pension is, and what the risks of not having contents insurance might be"*.) It is only when people move past these basics that investment per se becomes a significant proposition for them. Whether the funds are to be raised on a voluntarily basis or by a compulsory levy, a more persuasive "business case" must be made.
- To aid the analysis of which firms should contribute towards the service and to what degree, there seem to be two key factors:
 - Level of contact with (proximity to) customers.
 - Likely commercial benefit from the provision of GFA for a firm or organisation – albeit it is hard to measure and, according to many firms, unlikely to happen at all.

The questions for the team are: what is the relative importance of the two factors and how to develop a formula using collectable data? Arguably, as the bottom line impact is so hard to measure and, according to many firms, negligible to non-existent, the higher weighting should be given to customer proximity. Below is a diagram which illustrates how this might look, from a presentational perspective.

Model for Assessing Funding from Business Sector



To assess the likely impact on firms' long term profitability, it is important to understand the various outcomes that groups of firms will be looking for from the GFA service, as a means of improving financial capability. IMA members, who typically market investment funds via intermediaries, would like:

1. To know their funds are being used by savvy customers who:
 - a. know when it is appropriate to invest, rather than spend or save in cash, take account of the likely risk/return trade-off and realise that this can be managed over time; and
 - b. know when it is appropriate to seek professional advice to help them match their investments to their personal needs and risk thresholds.
2. Good quality advisers, both regulated and generic, who can inform and guide their customers constructively to plan for financial security in the future.
3. Authorised funds to be seen as a customer-friendly means to diversify and to access professional investment management, and for pensions, ISAs and CTFs to be seen as valuable tax wrappers for those investments
4. To enhance the levels of customer satisfaction with investment management services over time, to improve their reputation in the market and increase their scope to run growing and profitable businesses

Most of the retail investors in IMA members' authorised funds invest in those funds via regulated advisers. However, there are those who could afford to invest, but have not yet taken that step. They, and in future those who will be holders of personal accounts, could be guided, generically speaking, by GFA towards the services provided by the investment sector. IMA is concerned that these new

investors should feel comfortable with the management of their retirement savings. Maybe, in the next stage of development, you could try to demonstrate GFA as a means to achieve this?

5.1. Would a compulsory levy be the most appropriate way of raising the industry contribution to a GFA service; and if so, should it be a new mechanism or an existing one, such as the FSA levy?

We recognise the difficulties the team foresees in relying on voluntary business contributions. However, many IMA member firms are very wary of compulsion. Approximately 5.7% of IMA members' fees to FSA already go towards financial capability. Individual members could easily calculate how much in absolute terms this amounts to and compare this figure with money spent on information, education and GFA delivered on their own account. Given your cost estimates, and crudely adding the 50% you propose to FSA's existing expenditure on financial capability, the fincap contribution would more than double or triple, the proportionate contribution could rise to between 17% and 11% of fees due to the FSA and there would be an increase in overall FSA levies of up to 13%. Firms would find such increases unacceptable and anyway would expect to see some value for that expenditure over time, which compared favourably with any value they might get in spending the same amount themselves.

Also, it is worth noting that the FSA's public awareness statutory objective is to promote public understanding of the financial system and that the 'public' in this case comprises those in a position to engage in the financial system as defined by FSA's regulatory jurisdiction. It does not include those who are "financially excluded". Members can and do choose to help the financially excluded through their Corporate Social Responsibility budgets, but should not be expected to do so through their FSA fees. Therefore, given the emphasis stated up front in the report on helping those who are in debt and have no financial products, the FSA levy could be one, but not the only, way of raising money to pay for GFA.

A final point is that any increase FSA funding should be supported by CBA. When it comes to requiring the industry to contribute to funding there does appear to be a conflict with the statutory requirement under FSMA for completion of a CBA before new FSA rules are introduced. Although the Review is not proposing new rules as such, if it leads to an increase in fees through the FSA levy, a CBA should be completed.

5.2. Would it be practical for compulsory contributions to be made partly in kind, whether by provision of staff, accommodation or other resources, or as a direct provider of part of the service?

This is really a decision that needs to be taken centrally, depending on the management and administration capacity of those involved. Given our views on commercial involvement in the provision of GFA, we would not support the suggestion that financial services firms with products to sell should be direct providers of the service. Contributions of staff on secondment or accommodation could be arranged, but considerable care would need to be taken to ensure that the true and full impartiality of the service was not prejudiced

IMA is offering to support the GFA service with input on investment content, which could be taken as a material contribution on behalf of its members.

5. 3. What should be the coverage of any industry levy? In particular, should it reflect the value of business in non-regulated products, such as some consumer credit companies, which are likely to generate significant calls on a GFA service?

The approach, outlined above, to identifying which firms should contribute and to what degree means that it would not just be FSA-regulated firms who would be expected to contribute to the GFA service. The case for consumer credit companies would be high given their close contact with individuals.

5. 4. Are there some firms that should be excluded from a compulsory contribution? In particular, should firms that:

- sell only non-regulated financial products; or***
- operate on a very small scale or for whom credit is just an ancillary activity; or***
- have only peripheral contact with those who are most likely to benefit from GFA;***

form part of the contribution base?

Again, the assessment of companies we suggest above could be applied here. As it illustrates, those with only peripheral contact with customers likely to benefit from GFA should be lower down the list of funders.

Last but not least, and at risk of repetition, equal, if not more, emphasis should be given to the benefits that the GFA service might bring to society and Government. With its focus on those on low incomes, who may also be hampered by poor literacy skills, the GFA service will be in large measure a public good – in some cases a catching-up process for some adults on the education they should have had at school or from their family - and as such should attract significant public funding.

The reaction of health professionals to the FSA's proposed Parent's Guide to Money indicates that the financial capability aims inherent in GFA will be well-received. They certainly believe that such generic information and guidance can make a genuine difference to families' welfare.

Investment Management Association
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