



Thoresen Review of Generic Financial Advice

Call for Evidence

Submission from the Association of British Credit Unions Ltd

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Introduction

- 1.1. ABCUL is the main trade association for credit unions in England, Scotland and Wales. ABCUL represents 70% of the 531 credit unions throughout England, Scotland and Wales and ABCUL members serve approximately 85% of credit union members.
- 1.2. According to unaudited figures from the Financial Services Authority, in September 2006, credit union members held savings of over £428 million and were borrowing over £363 million from their credit unions.
- 1.3 ABCUL, like its member credit unions, is an Industrial and Provident Society. It is a co-operative owned and controlled by its members. ABCUL belongs to the World Council of Credit Unions the world wide apex body whose members represent 43,147 credit unions in 91 countries serving 136 million people.
- 1.4 Over the last eight years the Association has played a leading role in reforming and modernising the credit union movement in Britain. As a result the credit union movement is now adopting models of development and offering a range of products which has dramatically improved the scale of many credit unions. Credit union membership has almost doubled since 2002 and British credit unions now serve over 550,000 adult members and 80,000 junior members.
- 1.5 Credit unions have four statutory objectives which are contained within the Credit Unions Act 1979:
 - (a) the promotion of thrift among the members of the society by the accumulation of their savings;
 - (b) the creation of sources of credit for the benefit of the members of the society at a fair and reasonable rate of interest;
 - (c) the use and control of the members' savings for their mutual benefit; and
 - (d) the training and education of the members in the wise use of money and in the management of their financial affairs.
- 1.6 Our evidence focuses on some of questions contained in the strategic issues section of the call for evidence, as we do not have operational experience of running generic advice services for the general public. Credit unions do, however, provide a wide range of financial services to people who are often not engaged with the wider financial services industry. To assist them to do this, credit unions engage with a wide range of partners to ensure that people who may be financially excluded can access the savings, loans, insurance and other products which they need to conveniently carry out day to day activities. By liaising with local money advice agencies, especially Citizens Advice Bureaux, housing associations, SureStart schemes and other trusted intermediaries, credit unions enable many people to become financially included. It is from this viewpoint that our evidence comes.

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

A generic advice service should aim to provide an inclusive service to low and median income earners. Its delivery should ensure that people are not excluded from the service because of e.g. lack of access to the internet, speaking English as a second language or low literacy and numeracy skills. Segmentation may be useful internally but should not be public as it may backfire if people see the service as 'not for them'.

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

Whilst it is likely that people, often higher earners, who are more likely to use the regulated advice regime will not approach such a service, a quick 'triage' system, without significant resource implications should ensure that people who are maybe looking for a free alternative to using an Independent Financial Advisor would be referred away from the service at an early stage. Publicity for the scheme should be clear about its limitations and ensure that it is not, for example, a source of investment advice for people with significant amounts of money to play with.

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

As well as publicity campaigns designed to explain how the service can work, information and guidance should be given to as wide a range of stakeholders as possible to ensure that appropriate signposting can take place. Credit unions engage with a wide range of trusted intermediaries in the communities they serve; e.g. Housing associations, SureStart schemes, local authorities and Job Centre Plus. In this way, credit unions can ensure that people approaching these partner organisations can be given the correct information about services available and other sources of advice and information. For instance, when a client of a SureStart scheme approaches the organisation with a query about saving for their child or for a source of a loan for baby equipment, the worker would be able to advise the person of details about how the credit union works. Credit unions also build links with local Citizens Advice Bureau and other money advice agencies, to ensure that they have the necessary local links in place to help their members get the most appropriate help at the time.

The organisation providing the generic advice should also engage with the media and its spokespeople should become known as experts in their field and gain exposure in the print and broadcast media.

Any publicity campaign would of course have to compete with the aggressive marketing by loan companies and debt management companies. Thought should be given as to how unhelpful messages from these companies can be countered by the publicity surrounding the generic advice scheme.

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

The service should focus on advice on financial management, budgeting and product related advice, particularly at different life stages. It should not attempt to replicate crisis 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?

Clear information about what services the generic advice services provides should be made available. A 'triage' system used by advisers at first contact should be used to assess if the person is in the right place for the advice they need. Referrals to a more appropriate organisation can then be made at an early stage. It should also be made clear that no providers are involved or linked to the scheme as this may blur the boundaries between generic and regulated advice.

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

A wide range of organisations can play a role in this. This should build on the work being carried out by the Now Let's Talk Money campaign which is working with a range of organisations including housing associations, SureStart schemes, local authorities etc. Credit unions can also play a strong role in this; they often refer members onto money advice agencies, especially CABx, for money advice and some credit unions have in-house money advisors.

Some of our larger credit unions would be in a unique position to provide members with product advice and financial management advice. This would only be possible where there was no conflict with the needs of the individual and the needs of the credit union.

There is also a much bigger role for credit unions and others to be played as a referral service. In research published by ABCUL last year¹, 65% of respondents reported a household income of below £400; in community and new model credit unions 42% of respondents reported a household income of below £200 per week. This represents a group that can easily be engaged with; who may have discovered the benefits of the credit union in terms of savings and loans but have probably not been exposed to the wider benefits of financial advice across the range of products that may be important to them.

¹ Membership Counts – Who uses credit unions? Sharon Collard and Nick Smith, Personal Finance Research Centre, University of Bristol, ABCUL, April 2006.

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?

A generic advice service should not refer people onto specific commercial providers; this would compromise independence and could slip into regulated advice. The service could, however, assist people to use comparison websites or work with an independent website to provide a comparison site to work alongside the project. This website could provide people who do not need face to face or telephone advice with clear information about budgeting, types of products and the different products available. It could also be part of the toolkit used by advisers to help clients make choices about their finances and be a resource which a client can use after they have engaged in the advice process.

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

Current advice agencies would be best placed to answer this question.

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

It is possible to deliver generic advice that would not need to be regulated, because regulated advice requires the advisor to recommend a specific product from a specific provider. Given that this service will be independent and assuming that people will be given information about the benefits and features of products, rather than recommending a particular provider's product, then with proper training it should be easy for advisors to avoid giving regulated advice.

FSA representation on the board of the generic advice provider could ensure that the crossover into regulated advice did not happen.

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

It is likely that a major campaign to launch the generic advice service may cause an increase in people requiring crisis advice. This may lead to a larger number of people than usual being referred to money advisers and may have resource implications for these services. This should be analysed in any pilot studies and plans to cope with this should be in place before a national roll out of the scheme.

The generic advice scheme could also increase the number of people using paid advice as this may be the next step for people wanting to make use of more products.

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

It is essential that the generic advice service is free at the point of delivery. People should not be put off using the service because they can not pay for it or do not wish to pay for it.

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)?

The increased take up of financial products will mean increased sales for commercial providers. The increase in people seeking advice before they reach a crisis stage (at which point debt may need to be written off) will also be commercially beneficial for the providers.

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

Individuals should benefit from increase in personal assets and less personal crises caused by debt and financial mismanagement. The increase in personal assets will have a long term effect on the welfare state as more people reach retirement having made better financial decisions at an earlier stage in their life and have more money available to meet their needs once they stop working.

The take up of Child Trust Funds could be one way in which benefits could be quantified.

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?

Quantification of the commercial benefits to providers will assist in making this calculation.

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’?

No information available to us.

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

Simple, clear information from a wide range of sources. Whilst written information and publicity campaigns will play a part in this, it is important to remember that not everyone will make decisions based on information they read. By bringing trusted intermediaries on board and ensuring that people who come into contact with the target groups for the advice service have ‘bought into’ the idea of the service and can help people access the service. A range of media should also be used to encourage people to access the service. Sponsorship of television programmes could perhaps be considered as a way of getting the name and idea of the service across to people on a regular basis, as happened with the learndirect sponsorship of This Morning.

The advice service could promote the idea of financial ‘health checks’ to encourage people to review their finances. Simple case studies could illustrate how different decisions at different points in life can make a big medium or long term difference.

Consumer ‘champions’ such as Martyn Lewis should be engaged to promote the campaign and encourage people to use it.

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

A number of credit unions offering Growth Fund loans have mirrored the campaigning of the home credit providers to market their loans. They have used similar language and imagery in leaflets and advertising but stressing the much better value offered by a credit union loan. This has brought many people to credit union services for the first time, around 80% of these loans have been to new credit union members, many of whom are starting to save and access other services as well. These loans are funded by the £36 million DWP Growth Fund, part of the Financial Inclusion Fund. Members are unaware that loans are being offered because of DWP funding but a number of credit unions have marketed the loans as a separate ‘Handiloan’ using simple explanations and easy application and payment regimes as the unique selling point of the products.

In research on who uses credit unions published last year by ABCUL¹, 57% of respondents who had ever used home credit had stopped using it or used it less as a direct result of becoming a credit union member.

¹ Membership Counts – Who uses credit unions? Sharon Collard and Nick Smith, Personal Finance Research Centre, University of Bristol, ABCUL, April 2006.

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

It should be clearly seen as independent, professional and confidential. It should not be seen as aligned with other organisations which people may have financial obligations to or be promoted as for people in crisis or struggling with money. NHS Direct has managed to become a well known organisation which people can turn to if they are worried about something or need more information, but people know that it can also help with health emergencies. The brand for a generic advice service should aim to encourage all potential users to see it as something they can use.

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

As mentioned above, consideration should be given to the fact that not everyone who would benefit from the service will act on written information. A wide range of trusted intermediaries should also be encouraged to buy into the campaign to ensure people can find their way to the service through a variety of routes.

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

The location should be somewhere where the independent and confidential nature of the advice service is evident. Pilots could trial a wide range of locations including branded high street locations, supermarkets, GP surgeries, schools, existing advice locations.

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

An easy to access and independent generic advice service should encourage people to look more carefully at their finances and plan more for their future. Pilots and research will be able to determine to what extent people are doing this for the first time and to what extent the service is 'preaching to the converted'.

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)?

Given that this service will be set up to meet a gap in the advice market and will need to be marketed as something new, then the best way to achieve this will be through the creation of a new body.

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

A close relationship should be encouraged and maintained. Representatives of a wide range of stakeholders, including Citizens Advice and other major advice agencies, should be on the board of the new organisation.

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

For commercial organisations an addition to FSA fees would prevent a separate levy and the extra administration and cost that this would bring.

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