



**Thoresen Review**  
of Generic Financial Advice

**SPEECH BY OTTO THORESEN ON GENERIC FINANCIAL  
ADVICE, AT THE ABI SAVER SUMMIT, LONDON, SW1  
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## **Check against delivery**

I am delighted to be here at this Saver Summit and to welcome the publication of your “State of the Nation’s Savings” survey. The picture it paints will be no surprise to any of us. But it demonstrates yet again the need for access to better financial information and guidance.

When I last addressed an ABI audience on the subject of generic financial advice, in May this year, I had only just started my review. Now it is over a month since we published our interim report. A lot of water has passed under the bridge since May. Looking back, I believe we have learned a tremendous amount. And it is reassuring to find that, on the basis of what we have learned, many of the hypotheses I put forward in May still hold good.

We have a lot still to do before our final report early next year. But now is a good time to reflect on our progress so far and set out my vision for the work ahead. I also want to challenge some of the interpretations that have been made of aspects of the interim report; to set out why I believe our final recommendations will represent an important opportunity for ABI members; and to invite your input on a number of issues.

It will do no harm to remind ourselves of the context of this review. We have low financial capability set against a background of increasing uncertainty in financial markets and increasing distrust on the part of consumers. There is a growing expectation that individuals should take personal responsibility for their long-term financial well-being. There is undersaving for retirement coupled with increasing longevity. Giving people the knowledge and confidence to plan for the future, to act on those plans, to engage with the financial services industry, and to do so on a more equal footing, must bring benefits to individuals, the industry and government. It’s all about changing habits.

That is why my remit has always been “how not whether”. Nothing has happened since I accepted the task to make me question the correctness of

that assumption, or doubt the seriousness of Ministers in setting it. I believe my interim report takes us a long way down the road to demonstrating its correctness. It shows that, on the evidence the Review has studied, Generic Financial Advice – GFA for short - is an essential element in improving financial capability across the UK. It demonstrates that it is feasible to build a national service. And it suggests that benefits would outweigh costs by around 3.5 to 1.

I would like to start by re-stating the key principles which I believe must inform any successful GFA service. Then I would like to discuss some of the concerns I have heard expressed arising from those principles.

First, users need to feel that the service is “on their side”. It needs to be, and be seen to be, impartial from both government and the industry.

Next, it needs to be supportive and informative. People should not feel they are being criticised or judged. But GFA cannot be just a public education campaign. It needs to focus not just on helping people to be better informed, but on persuading them to move from awareness and interest to take appropriate action.

Third, it should be preventative. It should help people take charge of their affairs before serious problems develop. Of course it will need to interact with specialist debt advice services. I would see it both referring people to them, and receiving referrals from them. It will be there to provide help and support so that when they have resolved their immediate financial crisis they do not relapse into the behaviour that caused it in the first place.

I also firmly believe that the service must be available to all. There are very few people for whom GFA will never be relevant. There are some life events that few of us are equipped to navigate without help and guidance – I’m thinking about things like losing a partner, becoming unemployed, approaching retirement. But although the service must be available to all, it must be designed, branded and located to engage the right people in the right

way. We have identified a group of around 19 million people who represent our assessment of who will benefit most from the service. There will be others who, though not generally in need of GFA, do need it at particular life events. The service will need to reach out effectively to all of these. But they could be put off if it is positioned or perceived as only for the poor, or for people in trouble.

Another principle is that the service must be delivered in an environment which users perceive as not being linked to any product sale. And the last is that the service must be able to give guidance, and empower individuals to make decisions for themselves; but should stop short of recommending a specific product, with a specific provider.

Having set out those principles, I want to address some of the concerns and misinterpretations that seem to have grown up around them.

Some have looked at the principles of impartiality and delivery outside a sales environment, and concluded that they preclude the involvement of the commercial sector. That is simply not the case. “Environment” is not the same as “place”. It is the customer’s perception, and the way the service is delivered, that counts, not the identity of the person or organisation serving them. Commercial organisations do many things besides selling. Our own callcentre at AEGON, for example, often provides a GFA-like service to our customers. Many commercial websites include factual information and guidance whose content, if not its branding, could sit just as easily on the website of a third sector organisation. And commercial organisations *can* achieve the degree of trust necessary for a GFA service. Your study published today, for example, shows that employers and pension providers are trusted in relation to pension issues.

We can also learn lessons from outside the financial services sector. Partnerships have been forged whereby public information messages – for example about healthy eating – are disseminated in recognisably similar ways by both public and commercial organisations. The interim report proposes a

partnership model for a GFA service. My question is how best to accommodate partners from the commercial sector and still deliver a truly impartial service? I'd be really interested in views on this.

Another concern goes to the heart of my belief that there are hard commercial benefits to be gained from increased financial capability amongst the users of a GFA service. The case is put that the users will be drawn from the ranks of the socially excluded, who are unlikely, even with access to GFA, to become customers of the financial services industry.

Those who believe this should look again at the make-up of the cohort we have identified as most in need of GFA. It contains 19 million or so people with severe or significant GFA needs. That represents nearly half the UK adult population. Even once we take away the 3-to-4 million people who probably do initially need crisis support rather than GFA, this leaves over 15 million people with GFA needs. This figure is remarkably close to the 13 million identified in today's report as not saving enough for retirement. Many have family incomes of between £25-40k a year. Many are under the age of 45. Many should be thinking about buying appropriate financial products, or could, after receiving GFA, benefit from regulated advice. If GFA can equip those people to understand their financial circumstances, and take action to improve them, the commercial, as well as the social, benefits will be significant.

That leads me neatly on to the issue of costs and benefits. I have heard arguments that, bluntly, the benefits are small and remote, and the costs are excessive. I hope I have already demonstrated the scale of potential benefit. The underlying questions are rather whether GFA can actually deliver those benefits, and how they will be spread over time and across sectors of the industry. I shall come to the first point later. On the second, I acknowledge that, if we assume no change in the financial services landscape, the benefits from changes in customer behaviour brought about by GFA, could in the short term be uneven. Firms who lose from more savvy borrowing behaviour may not in the short term see compensating gains from stronger and more

persistent savings behaviour. That is something we need to understand better, and it is part of our work programme for the final report. But I believe it is unrealistic to assume a financial services market that does not change over time, and, in particular, that does not evolve to reflect the impact of GFA. Similarly I find it difficult to make a case that people should not have the tools to understand which product generates the most value for them. If customers start to behave more rationally, that can only improve competitiveness and drive up performance and profits over the medium and long term.

I turn now to costs. I have heard it said that, whatever the benefits, the costs are too high, and should not be met by the industry. I should perhaps point out that I have not yet said what I think a GFA service will cost, because I have not yet defined what that service should actually consist of, and how it should be run. What I did in the interim report was give illustrative figures for a new organisation, based on different assumptions about channel mix and levels of use. That provided a range of between £40 million and £80 million a year.

The purpose of producing those figures was to show that the views we were coming to, and the approaches we are prototyping, generated realistic cost ranges. I will not recommend a delivery model whose cost will clearly be unbearable for government and the industry (why would I? I'm CEO of a large Financial Services Company). We will now go on to produce more rigorous costs based on a recommended service design.

The presumption in the interim report is that since the benefits will be shared, the costs of GFA should also be shared between government and the industry. Some have questioned my conclusion that a compulsory levy – whether the existing FSA levy or some other mechanism - would be the most secure and equitable way to collect the industry contribution. Of course, I recognise that no-one actively welcomes paying a levy. Some have asked whether funding by voluntary contributions might in fact be workable. I am open to persuasion. My main concern is over the fairness and sustainability of a voluntary approach. If it can be demonstrated that a system of voluntary

donations could be fair and sustainable, I would be happy to recommend that approach.

Individual firms of course wish to know what a levy or other payment might mean for them in money terms. Our illustrative cost ranges in the interim report are equivalent to an increase of between 7% and 14% in the current FSA's funding requirement. Regulated firms will be able to work out for themselves what an increase of that amount in the FSA levy would imply for them. That does *not* mean I have concluded the service *should* be funded through the FSA levy – it's just a convenient way of illustrating the possible level of cost.

We also need to consider what firms should make up the contribution base for a GFA. In my view we should be looking, not just to bring in FSA-regulated firms that contribute to the National Strategy for Financial Capability, but also some of those who sell non-regulated products that are likely to generate calls on a GFA service – for example credit cards and loans. We will need to consider the contribution from occupational pension schemes, including personal accounts. We'll also need to think about whether some firms should be excluded, for example because of their size, or because most of their business is peripheral to financial services. And we'll need to look at other possible ways of contributing. Could firms provide funding in kind rather than in cash - perhaps by lending staff, office space or IT support, or being an accredited service provider? All these are issues on which I would welcome views.

There is another concern that goes to the very heart of the idea of a GFA service itself. That is the view that it GFA is unlikely to succeed because people simply will not use it. Or that if they do it will be for inappropriate purposes such as debt advice. I would like to be very clear on that second point. I am not interested in creating another specialist debt service. I would hope that in time a successful GFA service will reduce the need for crisis interventions. But I have no wish to duplicate the good work that is already

being done – as I have seen at first hand - by many third sector organisations, for people who are in financial difficulties.

I do not underestimate the difficulty of “selling” a GFA service to the public. At your conference six months ago, I called it a service that people need but do not yet realise that they want. But difficulty is not a good argument for not doing something that needs to be done. Getting people to engage with GFA will be difficult, but not impossible. It will take a long time and, initially, be costly. But there are precedents. We can learn lessons from other areas, such as long-term health campaigns, which have over time succeeded in driving home unpalatable messages, and persuading people to act on them.

Finally I would like to make a few observations about our GFA prototypes that have been running for the past three months in the North-West, London and Staffordshire. I call them prototypes because they are not miniature versions of a service that is ready to roll out nationally tomorrow. They are consciously designed to test specific “nuts and bolts” components of a service providing information and guidance. For example, the mix of skills for GFA advisers and different channels of providing guidance. We will be carrying out a detailed independent evaluation to draw out the lessons learnt from this phase of testing, and help refine the full service delivery model.

The experience gained from the prototypes will be invaluable. But I would not expect anyone, Government or industry, to invest in a national approach to GFA based solely on prototypes. Large-scale regional pilots will be necessary to test an end-to-end service, and answer the questions the prototypes cannot. I anticipate that this will be one of the recommendations to Government in my final report.

This morning I have issued a number of invitations to engage in the second half of this review. The report itself lists a range of questions on which we would like to receive views. I hope that you will respond – as soon as possible, and by early January at any rate. And I promise you, my team and I are committed to delivering the best proposal we can in our final report, built

on your input and experience. Tell us what you like about our ideas and, more importantly, how they can be improved. We are keen to hear from you, and are listening to what you have to say.

I believe the industry has here a unique opportunity. The survey published today is further evidence of problems for savings and financial capability which are chronic, but not yet critical or irreversible. There is broad political support for measures to address them. We have a choice. Either we seize the opportunity together, and turn the principles and theories in my interim report into a firm partnership, on which a national GFA service can be built. Or we step into the shadows of history, and leave future generations to sort out the mess. This event is looking to 2012 and beyond. The Government's pension reforms aim to address problems that lie forty or more years into the future. It is not often that governments look that far forward. Let us as an industry show that we can be equally far-sighted.

### **NOTES TO EDITORS**

Otto Thoresen has been appointed by the Economic Secretary to the Treasury to carry out an independent review examining the feasibility of delivering a national approach to generic financial advice. The aim is to ensure that there is greater access to high quality affordable financial advice for those most vulnerable to the consequences of poor financial decision-making.