

# Annex 1

## Target market analysis for generic financial advice

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1.1 The Review's terms of reference ask it to recommend "the most effective way of serving a generic financial advice (GFA) service to different groups, ensuring effective targeting of those most vulnerable to the consequences of poor financial decision-making".

1.2 The Review's intention is that the GFA service will be available to all, but through marketing and design, will engage particularly with those who could benefit most from GFA, delivering a service that is aligned to their needs, in a way most relevant to them.

1.3 To understand the groups who could benefit most from GFA, the Review commissioned Jackie Wells, a consultant, to model of the UK population, primarily using the Financial Services Authority (FSA) financial capability baseline survey, to arrive at a "grading" system of vulnerability as defined in broad terms.<sup>1</sup>

1.4 Jackie Wells' paper provides a "macro view" of the UK population and, with demographic profiling, clusters people according to their financial vulnerability. From the analysis, two groups emerge: approximately, 7.5 million people who could benefit the most from a GFA service, recognising that around half of the people in this group could be referred to sources of crisis support, and approximately 11.7 million people, who have significant GFA needs. The rest of the population could still benefit from GFA, particularly at key life stages, but the service should be designed, branded and located to attract the 19 million people who will benefit most, particularly the 7.5 million people most vulnerable. Demand management through an effective engagement strategy will be key.

1.5 The analysis acts as a starting point to understand the different groups of people who could benefit the most from GFA. It will enable a GFA service to cover the topics that would most benefit vulnerable groups by developing a marketing mix and means of delivery that ensure these groups are reached and that the service design is aligned to their needs. Piloting a GFA service will help test some of the hypotheses in this analysis.

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<sup>1</sup> Jackie Wells Consulting. Full report, '*Target Market Analysis for GFA*' is available at [http://www.hm-treasury.gov.uk/independent\\_reviews/thoresen\\_review/thoresenreview\\_index.cfm](http://www.hm-treasury.gov.uk/independent_reviews/thoresen_review/thoresenreview_index.cfm) as Annex 1.



# Thoresen Review

Target Market Analysis for  
Generic Financial Advice

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October 2007



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My thanks to those organisations kind enough to review and comment on this work, namely:

- Resolution Foundation
- Personal Finance Research Centre;
- Department for Work and Pensions;
- Financial Services Authority;
- National Social Marketing Centre;
- Which?;
- The Financial Inclusion Taskforce;
- The Social Exclusion Taskforce;
- HM Treasury officials;
- Various individuals from the financial services industry;
- Members of the Thoresen Review team.

## 1 Summary

- 1.1 In January 2007, HM Treasury published a paper describing the Government's long-term approach to financial capability. As part of the Government's approach, the Economic Secretary to the Treasury invited Otto Thoresen to research and to design a national approach to Generic Financial Advice (GFA). Included in the terms of reference was a requirement to recommend "the most effective way of serving different groups of consumers, ensuring effective targeting of **those most vulnerable to the consequences of poor financial decision-making**". This report examines the market for GFA and in particular explores how the term "those most vulnerable to..." might be interpreted, how many people might be classified as such and who, in general terms, they are.
- 1.2 In March 2007, Otto Thoresen issued a Call for Evidence, requesting input from a range of stakeholders on a number of aspects of the design of GFA. This included questions on the scope and nature of the target market. The key conclusions drawn from the Call for Evidence which have a bearing on this report include:
- That the service will have finite resources and that marketing of the service should be targeted at "those most vulnerable to..."
  - A clear majority view emerged that the service should be universal and inclusive and that no specific groups should be excluded or explicitly steered away. It was felt by many that almost all adults could benefit in some way from GFA at some point in their lives. A small minority of views emerged suggesting that certain groups could be steered away from the service (through marketing), swiftly cross-referred to other agencies (through a triage service) or should not form the primary target groups, with the greatest consensus for exclusion being around those for whom commercial advice services are economically viable. Others were concerned to ensure that all groups were given the opportunity to engage with a preventative and constructive financial advice service (rather than just falling back on crisis intervention services or other existing agencies).
  - That the service should not duplicate those crisis intervention services or other financial exclusion services that exist already but should rather be focused on preventative measures.

Section 3 of this report provides a more detailed summary of the responses to the Call for Evidence.

- 1.3 A considerable bank of existing research is available that might help to define the target market for GFA (see section 4). However, it was felt that no single approach taken so far, either to define the target market for generic advice or more generally support in improving financial capability, was sufficiently inclusive or comprehensive enough to define the users of a national system of GFA within the terms of reference for the Thoresen Review. The report therefore sets out both a theoretical description of the target market (in section 5) and the conclusions from an exercise of modelling the UK population using indicators of vulnerability drawn from the FSA's financial capability baseline survey.

1.4 The expression “those most vulnerable to the consequences of poor financial decision-making” can be broken down into three component parts: vulnerability, consequences and poor financial decision making. Of the three components, poor financial decision making is perhaps the easiest to identify or define, although even here judgements are necessary (e.g. is saving for retirement a rational act for moderate income consumers?). The sections immediately below describe a theoretical approach to describing the target market.

1.5 **Poor financial decision making** may stem either from action or inaction. Individuals may either take actions that are inappropriate or, as may more often be the case, fail to make a positive financial decision. Examples include:

- Failing to protect the financial security of the family through savings and/or insurance;
- Taking too little or too much risk when saving or investing;
- Excessive borrowing;
- Buying a product with high charges or, in some cases, buying the cheapest but inappropriate product.

Section 5 contains a full list of possible indicators of poor financial decision making.

1.6 **Consequences.** For an individual to be classified in the target market, the consequences of a financial decision should either be proportionately significant (for example, make a big difference to their income, assets or liabilities or result in immediate hardship) and/or irreversible. A perspective which takes account of income, expenditure and assets is perhaps best suited to capture the significance of the consequences of poor financial decision making. The consequences of poor financial decisions might be considered significant where:

- Those making decisions, irrespective of their level of income, who do not have any savings, investments, insurance or other sources of income on which to fall back in acute or chronic circumstances (e.g. long term illness, significant increases in interest rates and price inflation, increases in unemployment levels, a collapse in the stock market);
- Those making decisions which cannot easily be reversed and which could lead to a significant change in income or wealth which cannot be remedied (e.g. those purchasing an annuity or those seeking to release equity from their property in older age).

Section 5 contains a fuller list of examples of where the consequences of poor financial decisions can be significant.

1.7 **Vulnerability** is perhaps the hardest of the components to define. In relation to financial advice, the root causes of vulnerability can be:

- A lack of financial capability, which can result in an inability to make appropriate decisions to act (or not act) or to select appropriate products;

- A lack of personal confidence in approaching financial matters or in facing up to sales pressure (in many instances this may be related to financial capability but in others could be the consequence of a personality trait which financial capability does not override);
- Individuals finding themselves in circumstances which are highly stressful and likely to override levels of capability or confidence which would otherwise reduce vulnerability (e.g. death of a partner, loss of a job, needing long term care, birth of first child).

Section 5 includes a more complete list of indicators of vulnerability.

- 1.8 For an individual to be considered to be in the target market, they should meet all three requirements, i.e. be vulnerable, be in a position where the consequences are significant and/or irreversible and be prone to poor financial decision making. In order to estimate the size of the target market and to profile it a pragmatic approach to populating the theoretical model was needed.
- 1.9 A number of different approaches to modelling the market for GFA could have been taken and were considered:
- Some would have involved gradually eliminating certain groups from the total population with the resulting residual group analysed and profiled. However, this approach did not appear to be consistent with the desire for an inclusive and national approach.
  - Others could have involved decision trees that sought to isolate those with most elements of vulnerability. However, this approach when tried, whilst isolating the extremes of vulnerability, did not provide sufficient clarity between those with considerable indicators of vulnerability and those with none.
  - Based in part upon the responses to the Call for Evidence and the availability of the FSA's baseline survey, which describes the entire adult population, a decision was taken by the Thoresen Review team not to exclude any groups from the target market but rather to isolate different groups with potentially different needs. The approach taken to modelling involved building an additive score to identify multiple dimensions of "vulnerability to the consequences...". The score enabled the Thoresen team to identify different segments of the entire population and to form a view on the type of service and needs that each segment might respond to.
- 1.10 The scoring model was built using the research database developed for the FSA's baseline study of financial capability. Whilst not providing all of the components that might help to define the target market, it is the most comprehensive database of consumer financial behaviour, capability and attitudes available in the UK. Details of the model are contained in section 7 of this report.

1.11 The score was built by ascribing a score of 1 point to each individual represented in the FSA's sample (5,328 respondents) for each of the elements of vulnerability (collated into the three domains of poor financial decision making, consequences and vulnerable). The results were then weighted and grossed up to represent the UK population<sup>1</sup>. This enabled the approximate number of individuals with different levels of 'vulnerability' to be quantified. The table below summarises the elements that make up the score. Whilst no explicit weighting of the elements was undertaken, all elements included in the score were implicitly considered to be of equal importance.

The indicators chosen to identify "those most vulnerable to..." were selected following discussions with experts in the Personal Finance Research Centre, FSA, DWP, HMT and others, who helped refine the indicators and suggest alternatives. The selection required an element of judgement to be applied, but those used broadly represent the collective opinion on the most practical way of building the scoring model.

#### **Vulnerability**

Choosing Products – bottom quartile score of financial capability domain  
Staying Informed – bottom quartile score of financial capability domain  
Not IFA Prospects – not economically viable for advisers on income or wealth  
No Financial Products – no financial products (banking or savings)  
High IMD<sup>2</sup> Score – in top two deciles of IMD  
Poor Literacy – interviewer recorded respondent difficulty with reading

#### **Consequences**

Making ends meet – bottom quartile score in financial capability domain  
Less than 10% Income in Savings  
Less than 50% Income in Savings  
Less than 100% Income in Savings

#### **Poor financial decision making**

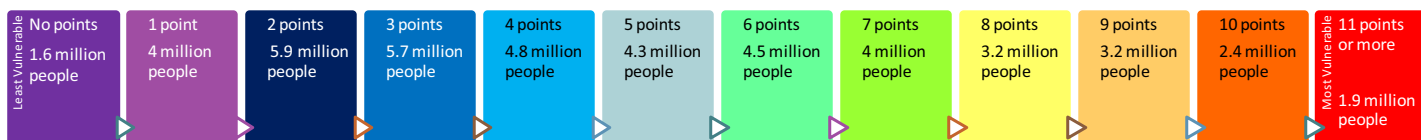
Planning Ahead – bottom quartile score in financial capability domain  
Keeping Track – bottom quartile score in financial capability domain  
No Savings  
Working and no Pension or other Savings  
Children and no Life Cover  
Working and no Income Protection  
Overindebted - 100% or more of household income in unsecured debt recorded

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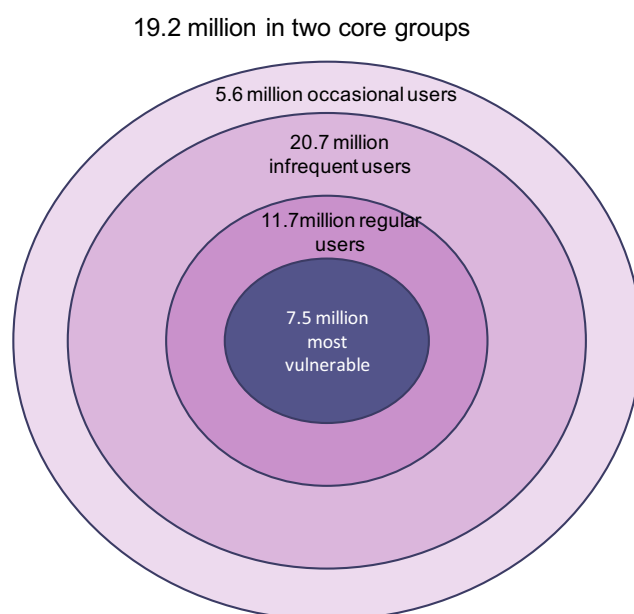
<sup>1</sup> Using the weighting and grossing up variables supplied by FSA as part of the Financial Capability database.

<sup>2</sup> Indices of Multiple Deprivation, developed originally for the Office of the Deputy Prime Minister by the Social Disadvantage Research Centre in 2004. The IMD contains seven domains of deprivation: income; employment; health; education, skills and training; barriers to housing and services; living environment and crime.

1.12 By building up a score based upon the three elements of poor financial decision making, consequences thereof and vulnerability (described below), we were able to develop a spectrum of vulnerability that covers the whole of the UK population. From this we were able to isolate distinct groups for the delivery of GFA. Those in the far left-hand box (purple) are those with no elements of 'vulnerability', those in the far right (red) having the highest scores for 'vulnerability'.



1.13 When these twelve groups were profiled, it became clear that certain groups were similar in profile based on the causes of their 'vulnerability' (used here as shorthand for vulnerable, consequences and poor financial decision making). The groupings were not based on any statistical test but rather by reviewing the characteristics that make up their vulnerability score of the segments. The twelve segments have been grouped into four sub-groups, the central two of which contain the 19.2 million individuals who will form the key target groups for GFA, although it is recognised that included in this number are more than 3 million who may require, in the first instance, crisis intervention which falls outside of the remit of GFA. However, even this 3 million will not be turned away from the service, rather they will be directed to other agencies for debt management advice but may return to GFA either once their debt issues have been resolved or for other financial matters in the meantime (such as how to claim on their car insurance or how to find the best bank account for them).



1.14 The table below summarises the characteristics of vulnerability that bind each group, their expected needs from a GFA service and their demographic profile.

	Most vulnerable	Regular users	Infrequent users	Occasional users
Number of UK adults	7.5 million	11.7 million	20.7 million	5.6 million
Vulnerability	Multiple drivers of vulnerability: lack of access to commercial advisers, poor planning ahead, very limited savings or protection, limited financial portfolio and therefore limited knowledge of products, difficulty making ends meet and over-indebtedness (almost half). Many who are working have no pension. One in five may have literacy problems and 50% live in areas with high levels of multiple deprivation.	Vulnerability driven primarily by not being adviser prospects (majority), not being experienced at choosing products, some lack of savings, over-indebtedness (one in three). Showing signs of not being good at planning ahead and more than one in three with low scores on making ends meet. However, generally good at keeping track of money and many have some savings. One in ten may have literacy problems and >20% in areas with high levels of multiple deprivation.	Vulnerability driven primarily by not being adviser prospects (about two-thirds), not being experienced at choosing products or not good at keeping track of their money. Results in some over-indebtedness (around 1/3 <sup>rd</sup> ) and some lack of savings but generally good at planning ahead and staying informed. At upper end of scores, some struggling to make ends meet. Small number have literacy problems and one in ten in areas with high levels of multiple deprivation.	Some lack of access to commercial advice and poor at keeping track of money but otherwise no significant signs of vulnerability. Consequences of subsequent poor financial decision making unlikely to be significant for many (due to relatively high level of saving). Not at risk due to poor financial capability. No strong evidence of poor decision making.
Expected needs of GFA	Approximately half of this group might be expected to require either crisis intervention or support from other agencies. Others expected to need help with pre-crisis managing debt and budgeting. Personal Account prospects.	Some crisis intervention but majority could gain help with interpreting products, managing debt, increasing savings and budgeting. Personal Account prospects.	Many of this group are capable of finding information and advice without the support of GFA. They do, however, need help in understanding products and some money management techniques. Focus on jargon busting.	Majority will not require targeted support from GFA. However, this group includes many approaching or in retirement. Some support may be required in complex areas such as annuity purchase and equity release.
Demographics	Average incomes 60% of national average. All household incomes <£40,000 after tax. Approx 20% have no financial products (yet). On average hold one banking or saving product types. 30% has no bank account. Much younger than average, 70% aged under 45, 8% aged over 65. Slightly less likely than average to be working but more likely to be working part time. Slightly more female than male. Many more singles, separated and divorced than average. Only 25% married. Approx 25% single parents. Higher than average in Wales, Scotland, NI and in England in NW, NE and London. Slightly higher than average non-white. Lower education levels than average (20% A levels and above). <20% own their own home, half in social housing.	On average incomes slightly lower than national average – almost half with incomes between £10k and £30k after tax. Approx 5% with higher incomes. On average hold two banking / savings product types. Younger than average, 62% aged under 45, 16% aged over 65. Slightly more likely than average to be working full time. Slightly more female than male. More singles and divorced than average but >40% married. >15% single parents. Higher than average in NW, NE, W. Midlands and London. Slightly higher than average non-white. Slightly lower education levels than average. <50% own their own home, more social housing and more private renting than average.	Incomes higher than national average – fewer very low incomes than least vulnerable but also fewer very high incomes. On average hold four banking / savings product types. Age more typical of population. 45% aged under 45, 22% aged over 65. Slightly more likely than average to be working full time. Slightly more female than male. Slightly more likely to be married than average and with dependent children. Broadly geographical spread. Ethnic mix closer to population average. Slightly higher education levels than average. Three quarters own their own home, less social housing than average.	Typically higher income and/or wealth (although one in three have household income <£10,000pa after tax). On average hold seven banking / savings product types. Older (60% over 55). Half have retired, most of remainder in full time work. More male than female. Predominantly married (but most no longer have dependent children). More likely than average to live in SE, SW, East of England or Yorkshire. Less likely than average to live in London, NE or Wales. Few non-white individuals 60% A Level or above. > 90% own their own home (>30% no mortgage).

1.15 The hypotheses of the expected needs of the target market for the service have been formed by examining the detailed profile of each group (see sections 8 and 9). The pilots (described in more detail in the Thoresen Interim Report) and market research will help to further identify the issues that consumers bring to GFA and the channels through which they engage with it.

1.16 Whilst the analysis undertaken on the target market for GFA tells us a lot about those most vulnerable to the consequences of poor financial decision making, and much of the hypotheses about usage of the GFA service are supported by market research conducted for the Thoresen Review, much more needs to be discovered about the best ways to engage the target groups. Further analysis will be available from the research and analysis of management information being undertaken in conjunction with the Thoresen pilots and additional data will be sought from other research and data agencies to enrich the profile for the final report.

## 2 Introduction

- 2.1 In January 2007, HM Treasury published a paper describing the Government's long-term approach to financial capability. The consultation document set out:
- The need to provide individuals with the tools they need to make more informed and considered financial decisions;
  - Progress made to date by the Government, the Financial Services Authority (FSA), industry and the voluntary sector in the delivery of financial education, information and advice to enhance financial capability;
  - The inefficiencies inherent in today's financial services markets which have led to many consumers who may need advice not seeking or receiving any and some others receiving poor quality advice;
  - The expected benefits to individuals and to the financial services market in having more informed and engaged consumers;
  - The intention of the Government to "contribute to a substantial increase in measured levels of financial capability across the population in the next ten to twenty years";
  - The aspiration to ensure that:
    - Consumers have access to high quality generic advice that would be designed to engage them with their financial affairs and to make effective decisions;
    - All children gain access to a planned and coherent programme of personal finance education;
    - A range of government programmes designed to focus on helping those most vulnerable to the consequences of poor financial decisions.
- 2.2 As part of the Government's approach, the Economic Secretary to the Treasury invited Otto Thoresen to research and design a national approach to Generic Financial Advice (GFA). Included in the terms of reference was a requirement to recommend "the most effective way of serving different groups of consumers, ensuring effective targeting of ***those most vulnerable to the consequences of poor financial decision-making***". In the context of GFA, financial decision making includes both the shorter term issues of money management and household budgeting as well as longer term decisions about membership of pension schemes or family protection.
- 2.3 It is intended that all adults will have access to the service, but that both the design and the marketing of the service should be targeted at those who are most in need of being engaged in financial decision making. This report seeks to provide a description and quantification of those segments of the population make up the most vulnerable.
- 2.4 This report has been developed following analysis of the responses to the Thoresen Review's Call for Evidence, discussions with key stakeholders (Financial Services Consumer Panel, Which?, Resolution Foundation, FSA, Department for Work and Pensions, Citizens Advice, Personal Finance Research Centre, trade bodies and some commercial players) and an analysis of existing research, in particular the FSA baseline data on financial capability.

### 3 Responses to the Call for Evidence

3.1 In March 2007 the Otto Thoresen issued a Call for Evidence, requesting input from a range of stakeholders on a number of aspects of the design of a GFA service. This included questions on the scope and nature of the target market, specifically:

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

3.2 Many of the respondents to the Call for Evidence responded to these questions and a few provided supporting research or evidence. The majority did not define with any precision the parameters for defining the target market. Many pointed to existing research conducted by the FSA, Resolution Foundation and others as the core source of data.

3.3 A clear majority view emerged that the service should be inclusive and that no specific groups should be excluded or explicitly steered away (although implicit in most responses was the point that the service would be focused on adults rather than children). It was felt by many that almost all adults could benefit in some way from GFA at some point in their lives:

*“We do not find that consumers prone to making poor financial decisions are restricted to any social, demographic or economic group”<sup>3</sup>*

3.4 A small minority of views emerged that suggested that certain groups could be steered away from the service (through marketing), swiftly cross-referred to other agencies (through a triage service) or should not form the primary target groups, although the practicalities of implementing any means testing or filtering were felt to add too much complexity to be of value. Groups who could be excluded through marketing or triage included:

- Those who are dependent upon state benefits, on the grounds that they already have access to a number of advice sources (e.g. Citizens Advice). However, a larger number of respondents argued for this group being included in the target market on the grounds of social exclusion and that they are just as likely to require support in managing money and avoiding excessive debt:

*“Do not exclude those on benefits – some can benefit from help and may have bought inappropriate products or may lack insurance or need help with [Child Trust Fund] CTF”<sup>4</sup>.*

- Those whose needs are complex and best suited to specialist advisers operating in the commercial or third sectors;

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<sup>3</sup> NFU Mutual response to Thoresen Review Call for Evidence, April 2007.

<sup>4</sup> Citizens Advice response to Thoresen Review Call for Evidence, April 2007.

- Those with high levels of financial capability, on the grounds that they are better able to help themselves;
- High net worth individuals (although this is not defined);
- Those whose income or wealth profile makes them economically viable for existing commercial advice to serve or those who are currently accessing regulated advice;
 

*“It would seem reasonable to exclude higher income households, on the grounds that those that can pay, should pay.”*<sup>5</sup>

*“Those earning over £30,000 are already well served by financial advice community”*<sup>6</sup>.

Some commentators, however, commented that the service should also be aimed at those who do use commercial services in helping them get best value out of the commercial sector.

### 3.5 Thoughts on the segments of the population who should make up the target market included:

- Those who make up the target market defined by the Resolution Foundation’s work on generic advice (see section 4 below), but with some concerned that this might exclude some individuals on state benefits and others concerned that the upper threshold of median earnings might be too low and exclude significant numbers who are not economic for commercial providers to serve or are otherwise vulnerable;
- Those on low or modest incomes, although few commentators defined this in any detail. This is a very similar group to that defined by the Resolution Foundation;
 

*“We believe that new services should be targeted at those most vulnerable to the consequences of poor financial decision making in the lower and middle income groups. A narrow target market would have practical benefits in terms of designing and piloting the new service and lessons learned could inform later Government consideration for broadening the service.”*<sup>7</sup>

Some commentators pointed to the low levels of correlation between financial capability and income as a reason not to confine the target group to those on low incomes. Others suggested that focusing the service primarily on low income groups would hamper the development of a plausible business case for the commercial sector to support the service;

- Those who have difficulty accessing advice, as set out in the Association of British Insurers’ (ABI) Advice Gap research (see section 4 below for further details);
- Those currently showing evidence of poor financial decisions (e.g. not saving, over-indebted, not making the most of their savings);
- Those who have low levels of financial capability as measured by the Financial Services Authority in its baseline study;

<sup>5</sup> Money Advice Trust, Response to the Thoresen Review Call for Evidence, April 2007

<sup>6</sup> Chartered Insurance Institute response to the Thoresen Review Call for Evidence, April 2007

<sup>7</sup> British Bankers Association response to the Thoresen Review’s Call for Evidence, 27<sup>th</sup> April 2007

*“The service should aim to serve those most in need first, i.e. people lacking in financial capability in terms of awareness, knowledge and willingness to manage their financial affairs.”<sup>8</sup>*

- Those who do not get access to existing advice either through formal financial advice networks (e.g. banks, Independent Financial Advisers (IFAs), direct salesforces) OR through Government or third sector advice networks (e.g. DirectGov, Citizens Advice Bureaux or Money Advice Trust);
- Those who currently do not seek advice but could afford to, on the grounds that GFA might encourage these individuals to engage with some form of financial advice;
- Those who may be auto-enrolled into Personal Accounts (estimated by the Government to be around 7 million<sup>9</sup>);
- Those who find themselves in positions of stress related to financial decisions, either because the decision itself is significant (e.g. loss of job, death of a partner, separation of assets on divorce, equity release or funding long-term care) or because they have not experienced such a decision before (e.g. the purchase of an annuity at retirement, taking out a first mortgage);

*“Decisions about long term care are often made at a time of particular vulnerability when people are confronted by a complex care system and when large amounts of their savings are required.”<sup>10</sup>*

3.6 Some respondents were concerned to ensure that certain groups were explicitly not excluded from the design and delivery of GFA, in particular:

- Older consumers with modest amounts of private resource who are living with a strong sense of financial strain;
- Families deciding where to place their Child Trust Fund or parents looking to save for their children;
- Black and Minority Ethnic groups;
- The socially excluded who suffer from multiple deprivation;
- Those with financial needs that are influenced by specific religious requirements (e.g. Sharia Law);
- Those without access to the internet or phone;
- Those with low levels of literacy or numeracy;
- Those unable to speak English;
- Differing needs of women and men, particularly in relation to pension provision;
- Single parents and divorcees.

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<sup>8</sup> Investment Management Association response to the Thoresen Review Call for Evidence, 27<sup>th</sup> April 2007.

<sup>9</sup> *Personal Accounts: A new way to save*, DWP December 2006.

<sup>10</sup> CCC response to the Thoresen Review Call for Evidence, April 2007.

3.7 More than one respondent suggested that the targeting of the service could follow the traditional lifestage approach to finance, thus aligning the service to the most likely needs of consumers at different lifestages:

- Pre-work adults;
- Young new workers;
- Young families;
- Older families;
- Eve of retirement;
- Immediately post retirement;
- Advanced elderly.

Whilst lifestages have not been used in this research to shape the definition of the target market, certain lifestages do dominate the core groups that have been identified and lifestage development is being used to identify potential advice protocols for use in the Thoresen GFA pilots.

## 4 Existing Research

4.1 The following section summarises some of the existing research that relates to the target market for GFA. All have been considered when building the model to define the target market in this piece of work, but the FSA's baseline survey of financial capability has been the most extensively used database.

4.2 During 2005-2006, the Personal Finance Research Centre at the University of Bristol developed for the FSA a baseline study of financial capability among UK adults. The quantitative study followed a detailed programme of desk research, qualitative research and cognitive testing of the questionnaire used in the quantitative phase. The quantitative survey of 5,328 consumers conducted in 2005 was used to derive five domain scores which measure relative financial capability. The scores were derived using factor analysis and the domains are:

- Planning Ahead – a measure that indicates people's willingness and ability to deal with expected and unexpected financial events (including retirement). The results show mixed results, with some of the population scoring well whilst others are at the other end of the spectrum.
- Staying Informed – this domain measures an individual's willingness and ability to keep abreast of changes in the economy, new financial products and changes to existing ones, and knowing where to get help and advice. A significant proportion of the population attracted a low score against this domain.
- Choosing Products – a measure to assess an individual's knowledge about financial products, their attitudes to risk, and their behaviour and confidence in selecting appropriate financial products. One-quarter of the adult population were not attributed a score at all due to their lack of engagement with buying financial products. The results for the remainder showed a significant number of individuals with low scores in this domain.
- Making Ends Meet and Keeping Track – two measures of managing money. Making Ends Meet is a score which indicates how well people are able to live within their means. Keeping Track measures how well people keep track of their day-to-day finances. The results indicated that whilst many people score well on Making Ends Meet, few people do very well on Keeping Track.

Cluster analysis combining the results of the five scores indicated that those with high levels of financial capability tend to be older and with higher income. Those at the other extreme, with several low scores, tend to be younger with lower incomes.

The findings of the FSA baseline study have been used extensively in this model since they already bring together a number of complex and interacting measures of financial behaviour.

4.3 The Resolution Foundation's work on generic advice identified a target group of around 15 million adults on below median earnings and for whom state benefits did not make up more than 20% of household earnings. The rationale for these individuals becoming the core target group for generic advice was based on:

- The difficulty that this group has in accessing advice from the private sector;
- The relatively low levels of financial capability found among this group;
- The lack of a cushion of wealth and assets to fall back on should they make poor financial decisions.

The Resolution Foundation has published a number of reports detailing the research conducted into the need for GFA, modelling the impact of GFA on the individual and society as a whole and an early model of the potential benefits and costs to the financial services industry.

- 4.4 The Social Exclusion Taskforce (and its predecessor the Social Exclusion Unit) has produced extensive research that has a bearing on identifying ‘vulnerable’ consumers. It operates from the Cabinet Office with a remit to co-ordinate the Government’s drive against social exclusion. The taskforce is presently conducting quantitative research on ‘social exclusion across the life course’, experienced by people of all age groups: children, young people, those of working age and older people. This research aims to provide further insight into factors such as who is affected by social exclusion, how long these problems are faced, and other key drivers. The research builds on an earlier research report commissioned by the Taskforce, The Multi-Dimensional Analysis of Social Exclusion Taskforce and on the original work creating an Index of Multiple Deprivation (IMD). Some of the earlier work on social exclusion, namely the IMD has been used as one of the potential indicators of ‘vulnerability’ in this piece of work.
- 4.5 The Financial Inclusion Taskforce, chaired by Brian Pomeroy, was formally established in 2005 with a remit to monitor progress against the Government strategy to tackle financial exclusion, as set out in its paper “Promoting Financial Inclusion”. The report set out a range of measures - in three priority areas – access to banking, access to affordable credit, and access to free face-to-face money advice. Part of the remit of the taskforce is to identify areas of best practice, and any gaps, in the provision of free face-to-face money advice. The views of the taskforce have been taken into account in preparing this paper.
- 4.6 In its first report, published in October 2004, the Pensions Commission<sup>11</sup> concluded that there were a number of barriers to an efficient pensions market arising from consumers’ economically irrational behaviour in the face of a complex UK pensions market, a lack of trust in the two key sources of advice: government and the financial services sector, and the high costs associated with delivering individual advice in such a complex market. These observations led in time to recommendations made in the commission’s second report that the UK should adopt a system of auto-enrolment of individuals who are not in an employer’s pension scheme into a National Pension Savings Scheme (NPSS). It was recommended that NPSS should be set up with a price cap which would deliver a level of value to members similar to that enjoyed by members of today’s large workplace pension schemes. It was acknowledged that the proposed level of cap would not support the costs of the current advice system in the UK but that NPSS would establish a clear need for generic advice to help people with enrolment and asset allocation decisions.

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<sup>11</sup> Pensions: Challenges and Choices, The first report of the Pensions Commission, October 2004.

The recommendations of the Pensions Commission led in turn to the DWP responding with White Paper proposals for the establishment of Personal Accounts (a derivative of NPSS) and to estimate that 7 million individuals might qualify for auto-enrolment. Demand for GFA may be triggered by this event, which is expected to take place in 2012. One of the indicators of demand used in this research is the potential for individuals to be auto-enrolled into Personal Accounts.

- 4.7 The Association of British Insurers (ABI) has through a number of publications, set out the difficulties faced by the financial services industry in delivering regulated advice to the mass market. In its paper “Strategies for Tackling the Savings Gap – The Role of the Saver Agent”, the ABI identified an ‘exclusion zone’ for regulated advice of 11 million households who cannot be profitably served by the financial services sector and who do not therefore have access to regulated advice. In this report we have used personal economic circumstances to identify whether individuals might be economically viable for a commercial adviser to serve.
- 4.8 The Call for Evidence revealed other significant research projects, which have been used to inform other aspects of the Thoresen Review team’s work on GFA.

## 5 “Those most vulnerable to...”

- 5.1 The expression “those most vulnerable to the consequences of poor financial decision-making” can be broken down into three component parts: vulnerability, consequences and poor financial decision making. This section describes a descriptive and theoretical model for identifying “those most vulnerable...”. The sections that follow seek to translate this theoretical model into a practical application.
- 5.2 In theory, any individual could be classified as vulnerable to the consequences of poor financial decision making, not just those with few assets or limited income. The history of financial services in the UK and elsewhere is littered with cases of individuals from all backgrounds who found themselves suffering from financial difficulty as a consequence of poor financial decisions. However, it is important to recognise that market failures and fraudulent advice or business models are not part of poor financial decision making.
- 5.3 **Poor financial decision-making** is perhaps the easiest of the three components to describe and from which consequences flow. It is for this reason we have sought to tackle its definition first.
- 5.4 Although there may be an accepted view of what constitutes a poor financial decision, some value judgements are still necessary, particularly in respect of risk and saving for retirement. For example, is it a poor financial decision not to save for retirement, when to do so could result in a potential loss of state benefits? Is it appropriate for an individual who is extremely risk averse to risk investing in the stock market? Is it appropriate to save entirely in cash without an understanding of the inflation risk that this often presents? This paper does not explicitly address these questions, but rather, accepts at face value the most commonly held views of poor financial decision making, as described below.
- 5.5 Poor financial decisions may stem either from action or inaction. Individuals may either take actions that are inappropriate or, as may often be the case, fail to make a positive financial decision. Examples include:
- Failing to protect the financial security of the family through savings and/or insurance;
  - Failing to save for one’s future, in particular for retirement;
  - Taking too little or too much risk when saving or investing;
  - Investing in a single asset class or a single asset (e.g. those who believe themselves to be saving for retirement through investing in their own home);
  - Excessive borrowing;
  - Buying a product with high charges or, in some cases, buying the cheapest product;
  - Failing to achieve the best income from an annuity purchase by failing to consider an open market option;
  - Failing to get the best interest on savings or paying an unnecessarily high interest rate on credit;

- Buying an inappropriate product – one that does not do what is expected of it;
  - Ignoring one’s financial position when things get tough;
  - Not keeping track of one’s finances.
- 5.6 It is important to recognise that poor financial decision making is not merely the result of poor financial capability or lack of access to information and advice. Some recent work on economic psychology (notably by Paul Webley and colleagues<sup>12</sup>) describes the impact of psychology on economic behaviour which can result in sub-optimal behaviour. However, very little quantitative work has been carried out in a form which enables us to use economic psychology to size and profile the target market for GFA. Further work will be required to understand the importance of psychology in engaging with GFA users.
- 5.7 **Consequences:** for an individual to be classified as “most vulnerable to...”, the consequences of a financial decision should either be proportionately significant (e.g. make a big difference to an individual’s income, assets or liabilities or result in immediate hardship) and/or irreversible. Not all consequences are financial in nature. Making poor financial decisions can also lead to personal stress or family breakdown.
- 5.8 In the main, it is individuals with fewest resources behind them who are most likely to suffer significant consequences or whose family is most likely to suffer the consequences. Those for whom the consequences might be most significant would be those whose financial position is such that the loss of money through poor financial decisions would lead to financial difficulty in their everyday life.
- 5.9 Previous studies of the subject of GFA, in particular the work of the Resolution Foundation, have used income to take account of the consequences of poor decisions. However, an individual’s income at any particular point in time may not adequately describe the instability of their financial position. An individual with a low household income and low household expenses would not be in the same position as an individual with a moderate household income and relatively high household expenditure. Individuals who have low incomes but significant assets, in particular financial assets, will be less insecure than those with low incomes and no financial assets. Similarly those with moderate incomes who struggle to make ends meet and have no financial assets may be especially vulnerable to a poor financial decision.
- 5.10 A perspective which takes account of income, expenditure and assets is perhaps best able to capture the significance of the consequences of poor financial decision making. The consequences of poor financial decisions might be considered significant where:
- Individuals struggle to make ends meet. For these individuals any change in financial circumstances (e.g. loss of a job or increase in interest rates) could lead to financial hardship. Whether an individual is able to ‘make ends meet’ may not be driven by level of income, but those individuals with lower incomes may be less able to adjust their expenditure in the event of expected or unexpected changes to their finances.

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<sup>12</sup> The Economic Psychology of Everyday Life, Paul Webley, Carole B Burgoyne, Stephen E G Lea and Brian M Young.

- Those individuals, whether or not they are able to make ends meet on a day-to-day basis, do not have any savings, investments, insurance (or other sources of income) on which to fall back in acute or chronic circumstances (e.g. long-term illness, significant increases in interest rates and price inflation, increases in unemployment levels, a collapse in stock market or house prices).
- The decisions being made cannot easily be reversed and could lead to a significant change in income or wealth which cannot be remedied (e.g. those purchasing an annuity or those seeking to release equity from their property in older age).

5.11 **Vulnerability** is perhaps the hardest of the components to define. The dictionary definitions of vulnerability describe a person who is susceptible, weak, defenceless, helpless, at risk or in danger. In relation to financial advice, the root causes of vulnerability can be:

- A lack of financial capability, which can result in an inability to make appropriate decisions to act (or not act) or to select appropriate products;
- A lack of personal confidence in approaching financial matters or in facing up to sales pressure (in many instances this may be related to financial capability but in others could be the consequence of a personality trait which financial capability does not override);
- An inability to access appropriate products (e.g. affordable credit, bank accounts), information (e.g. not having access to the internet) or advice (e.g. because the supply of advice is limited or expensive);
- A dependency upon inappropriate advice or information sources (e.g. unregulated advisers, illegal lenders);
- Low levels of literacy and numeracy (often reflected in poor financial capability) or a physical or mental disability that affects the individual's ability to access or assimilate information;
- An inability to access appropriate mechanisms for complaints and for remedy of a detriment (e.g. not having the confidence or ability to access the Financial Ombudsman Service or Citizens Advice);
- Individuals finding themselves in circumstances which are highly stressful and likely to override levels of capability or confidence which would otherwise reduce vulnerability (e.g. death of a partner, loss of a job, needing long-term care, birth of first child)

5.12 For an individual to be considered to be as "most vulnerable to...", they should meet all three requirements, i.e. be vulnerable, be in a position where the consequences are significant and/or irreversible and exhibit poor financial decision making.

- An individual who is vulnerable but for whom the consequences are unlikely to be severe is unlikely to be part of the target market, but may be part of an important secondary segment.
- Similarly, individuals who make poor financial decisions knowingly or through lack of application of their financial capability may not form part of the target market.

## 6 Building the model

- 6.1 Having described a theoretical model of “those most vulnerable...”, a way of building a quantifiable model that would allow the target market to be sized and profiled was sought.
- 6.2 A number of different approaches to modelling the market for GFA could have been taken and were considered:
- Some would have involved gradually eliminating certain groups from the total population with the resulting residual group analysed and profiled. However, this approach did not appear to be consistent with the desire for an inclusive and national approach.
  - Others could have involved decision trees that sought to isolate those with most elements of vulnerability. However, this approach, when tried, whilst isolating the extremes of vulnerability, did not provide any clear shades of grey in between those with considerable indicators of vulnerability and those with none.
  - Based in part upon the responses to the Call for Evidence and the availability of the FSA’s baseline survey, which describes the entire adult population, a decision was taken by the Thoresen Review team not to exclude any groups from the target market but rather to isolate different groups with potentially different needs. The approach taken to modelling involved building an additive score to identify multiple dimensions of “vulnerability to the consequences...”. The score enabled the Thoresen team to identify different segments of the entire population and to form an initial view on the type of service and needs that each segment might respond to.
- 6.3 The model used to identify “those most vulnerable...” has been developed using principles similar to those used in the development of the financial capability domains and in the development of the IMD used in the definition of social exclusion. The findings have been reviewed by a number of individuals with experience of research or analysis of this subject. Their comments and suggestions have, where appropriate or possible, been incorporated into the model and findings described below. Given more time and resources, further statistical analysis and profiling would be possible. This model should be considered as a starting point for taking the debate about the target market further.
- 6.4 No single data source enables all of the characteristics of the target market suggested above to be identified and analysed. However, the FSA’s baseline study on financial capability provides a good source of data on many of the variables that might be needed to populate the segmentation model described in this report. The data has been weighted and grossed up to represent the UK adult population aged 18 and over.<sup>13</sup>

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<sup>13</sup> Using the weighting and grossing up variable supplied by the FSA as part of the Baseline database. The grossing up creates a population of approximately 45 million UK adults. The accuracy of the grossing up and any error rate inherent in it have not been investigated in this work.

6.5 The scoring model described below has been built using the three ‘domains’ described in section 5 which make up “those most vulnerable to the consequences of poor financial decision-making”. The score is additive, with 1 point ascribed to an individual where they exhibit the characteristics listed below. Where they do not exhibit this characteristic their score is zero. Individuals with the highest score have the most indicators of being vulnerable to the consequences of poor financial decision making. Those with a score of zero have none of the attributes of ‘vulnerability’.

#### **Vulnerability**

Choosing Products – bottom quartile score of financial capability domain  
Staying Informed – bottom quartile score of financial capability domain  
Not IFA Prospects – not economically viable for advisers on income or wealth  
No Financial Products – no financial products (banking or savings)  
High IMD<sup>14</sup> Score – in top two deciles of IMD  
Poor Literacy – interviewer recorded respondent difficulty with reading

#### **Consequences**

Making Ends Meet – bottom quartile score in financial capability domain  
Less than 10% Income in Savings  
Less than 50% Income in Savings  
Less than 100% Income in Savings

#### **Poor financial decision making**

Planning Ahead – bottom quartile score in financial capability domain  
Keeping Track – bottom quartile score in financial capability domain  
No Savings  
Working and no Pension or other Savings  
Children and no Life Cover  
Working and no Income Protection  
Overindebted - 100% or more of household income in unsecured debt recorded

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<sup>14</sup> Index of Multiple Deprivation, developed originally for the Office of Deputy Prime Minister by the Social Disadvantage Research Centre in 2004. The IMD contains seven domains of deprivation: income; employment; health; education, skills and training; barriers to housing and services; living environment and crime.

- 6.6 The model does not incorporate any explicit weighting. All elements of the score are given equal importance, e.g. an individual who does not have the income or assets necessary to qualify for financial advice is attributed the same score as someone who is not saving for their retirement or someone who does not have a bank account. In time, consideration might be given to attributing more explicit weightings to the scores.
- 6.7 Whilst the FSA's baseline study includes many variables that can be used in the definition of the target group, it does not fully describe all of the characteristics of individuals and households that might ideally be included. Notable exclusions include:
- Access to or ability to use the internet or phone, although there is some data on use of the internet for financial matters;
  - Physical or mental disability;
  - Use of informal or inappropriate advisers.
  - Those taking of too little or too much risk across their investment portfolios;
  - Those who choose high-charge or inappropriate products;
  - Those who do not seek out the best interest or annuity rates.
- 6.8 The number of those defined as "most vulnerable to the consequences of poor financial decision-making" may therefore be higher. However, it is also possible that many of these individuals will be included by default due to the use of other variables that correlate highly with the missing variables.

## 7 Target Market Segmentation

7.1 The model outlined in the previous section and described in more detail below is deterministic and attributes a score to each individual in the FSA's baseline survey. The survey findings are then weighted and grossed up to represent the whole UK population.

7.2 **Poor financial decision making.** In looking at the incidence of poor financial decision making, much of the work has already been undertaken in the FSA's baseline study. Individuals are given 1 point for each of the following:

- Having a low score on the financial capability domain Planning Ahead;
- Being aged 25 or above<sup>15</sup> and earning more than £5,000 p.a.<sup>16</sup> (after tax and national insurance) and have no pension provision (current or previous) – i.e. those who will be auto-enrolled into Personal Accounts – and no significant other savings (of less than 10 times earnings) and no investment property. Of course, this does not in any way measure whether pension provision is adequate – the value of retirement provision is not included in the baseline study.
- Having no savings at all to fall back on;
- Being over-indebted, in this instance measured by unsecured debt exceeding 100% of their annual household income.<sup>17</sup> This measure was chosen because 100% of earnings in unsecured debt was deemed to represent a significant proportion of income, regardless of how high that income is;
- Working but having no income protection (either through insurance, employer cover or half a year's income in saving);
- Having children but no life cover (whether or not they are working);
- Having a low score on the financial capability domain Keeping Track;

The total score for poor financial decision making is the sum of these elements. So an individual who has no savings and scores poorly on Planning Ahead will score two points if they have do not have any of the other elements described above. The maximum an individual can score is 7 points if they display all of the characteristics.

7.3 Some aspects of poor decision making are not evident in the baseline survey and cannot be incorporated, thus possibly reducing the number with a higher score. These include:

- Taking too little or too much risk across one's portfolio (although it would be possible with considerably more work to identify those with a high proportion of savings in cash, property or equities and taking a view on whether this was excessive);

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<sup>15</sup> 25 has been chosen as it represents one of the age breaks in the baseline study for those who did not give their actual age.

<sup>16</sup> In its White Paper, Personal Accounts: A new way to save, the DWP recommended that anyone with annual earnings of around £5,000 or above should be auto-enrolled into Personal Accounts. The DWP also estimate that 7 million individuals are currently undersaving for retirement.

<sup>17</sup> In its 2006 annual report on over-indebtedness the DTI states that there is no universally accepted definition of over-indebtedness.

- Choosing high charge or inappropriate products.
- 7.4 The Planning Ahead domain measures the extent to which individuals plan ahead for future changes in income or expenditure (e.g. retirement) and is calculated using the following variables in the baseline survey:
- Whether respondents had made provision for a fall in income;
  - The length of time that individuals could make ends meet if they did experience a large and unexpected drop in income;
  - Whether individuals had any insurance to protect their income, payments or possessions;
  - Whether individuals had made provision for unexpected major expenditure or a future anticipated expense;
  - Whether individuals had no planned pension provision;
  - A range of attitudes to future planning (e.g. “I tend to live for today and let tomorrow take care of itself”).

11.3 million individuals score in the bottom quartile for Planning Ahead.

- 7.5 Those who aged 25 and above who are earning more than £5,000 p.a. and have
- no current pension; and
  - no significant other savings (less than 10 times their earnings); and
  - no investment property.

number just under 5 million.<sup>18</sup> Whilst for some this may not rightly be described as poor financial decision making, it indicates that currently they do not have any supplementary plans in place for retirement income. For some on low incomes and near retirement in particular, this may be a rational decision, however the model does not currently adjust for this.

- 7.6 Those who are working but have no protection against short-term or long-term loss of earnings through insurance (critical illness cover or income protection through their employer or an individual arrangement) OR savings (at least six months of household income in savings) number 5.1 million (although many of those excluded may only have short-term cover from their employer). 17.7 million (78%) of those who are working do have either insurance cover or six months’ worth of saving.
- 7.7 Those who have children but do not have any life cover, either through their employer or their own arrangements, number just over 2 million individuals. 13.1 million individuals with children (including 83% of single parents) do have some form of life cover.
- 7.8 Those who have unsecured borrowing of more than 100% of their household annual income (after tax and NI) number 14.3 million people.

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<sup>18</sup> In its White Paper, Personal Accounts: A new way to save, the DWP estimates that 7 million individuals are currently undersaving for retirement.

7.9 Those who have no savings number 11.1 million individuals.<sup>19</sup>

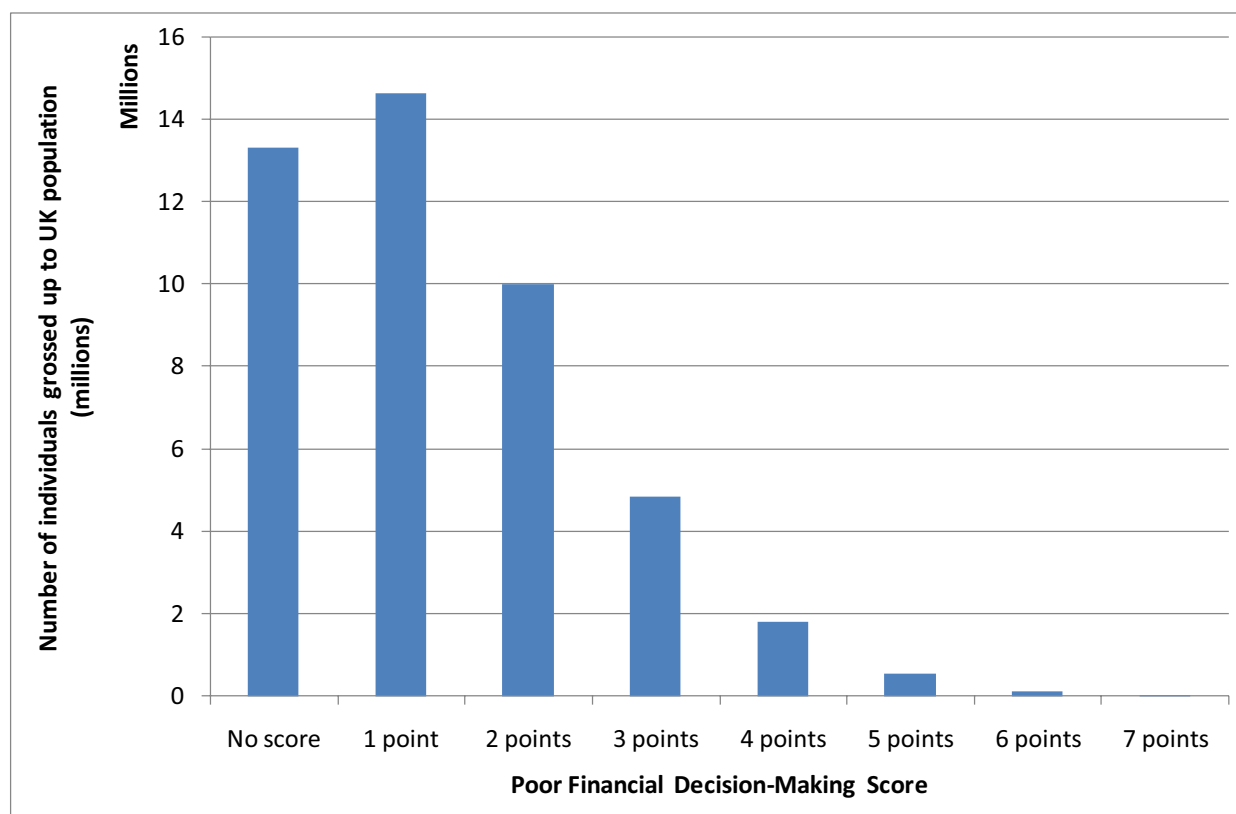
7.10 The Keeping Track domain measures the extent to which people control their day-to-day spending and keep track of their finances and is calculated using the following variables in the baseline survey:

- Whether people check entries on their bank and credit card statements;
- Whether people check their balances before making a withdrawal;
- Whether people plan for irregular or 'lumpy' expenditure;
- The extent to which people take responsibility for managing money;
- A series of questions capturing people's attitudes to managing their money.

11.3 million individuals score in the bottom quartile for Keeping Track.

7.11 When these elements are combined into a single score for each individual in the baseline survey and the results are weighted and grossed up to represent the adult population, almost one-third of the population exhibit no evidence of poor financial decision-making (the first bar in the chart below) with two-thirds showing some areas of weakness.

**Poor Financial Decision Making Scores**



<sup>19</sup> Data provided by HM Treasury from the Family Resources Survey indicates that 7.1 million households had no savings in 2005-06.

7.12 The largest group, over 14 million individuals, score 1 point – their score in the main caused by:

- Over-indebtedness - 34% of those with 1 point have unsecured debt of more than 100% of their annual household income. However, typically these individuals will score well on Planning Ahead and Keeping Track and will have some savings or insurance cover.
- Keeping Track – a further 30% of those with 1 point are poor at keeping track of their money but plan ahead well and either save or have insurance protection. They may well not keep track because they have no worries over their household budget.

7.13 Among those with a score of 2 or 3 points, poor planning ahead and not having income protection adds to the score for a significant number of individuals.

7.14 Those with seven points are weak on every element of the score – they are over-indebted, earn over £5,000 p.a. but do not have a pension, do not save, have a family but no life cover, have no form of income protection and are poor at keeping track of their money and planning ahead. They number approximately 36,000 people.

7.15 **Consequences.** The baseline study contains the following information that has been used to define consequences. Individuals are defined as facing significant consequences if:

- They have low scores on the financial capability domain of Making Ends Meet;
- They have no or insignificant savings or insurance protection. In this score we have attributed a score of 1 point for each of the following:
  - Where they have savings of less than 100% of their annual household income (after tax and NI);<sup>20</sup>
  - Where they have savings of less than 50% of their annual household income;
  - Where they have savings of less than 10% of their annual household income;

The effect of this element of scoring is that individuals with very low levels of saving attract a higher score than those with higher savings.

An individual can score 1 point for each of these elements and the total score for consequences is the sum of these scores. The maximum an individual can score is 4 points.

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<sup>20</sup> These three different levels of savings ratio were not selected with any specific rationale but rather to drive through some shades of grey in this part of the score. Those with a whole year's worth of income in savings are simply protected for longer than those with just 50%, who in turn have more protection than those with only 10% of their annual income in savings.

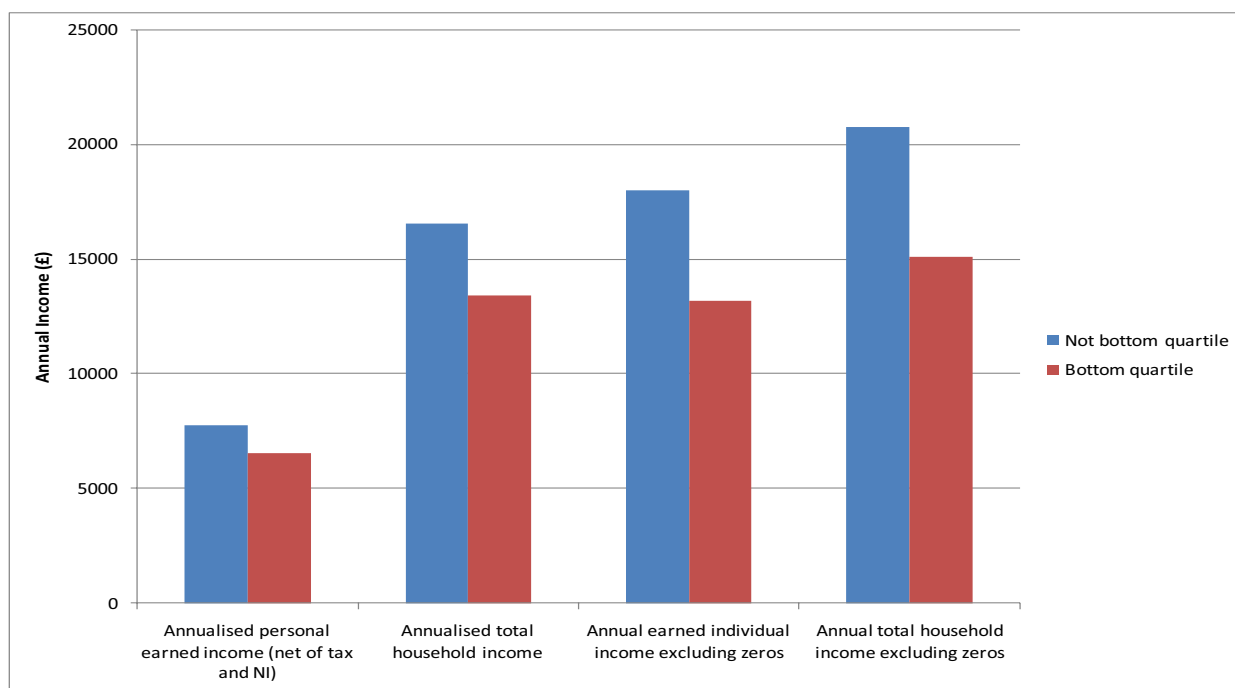
7.16 The survey does not identify those individuals who are facing decisions about purchasing an annuity at retirement, although it would be possible to include all of those approaching retirement on the grounds that in any event they may have some important financial decisions to make. Neither does the survey identify those facing decisions about long-term care although it would be possible to extend those included to all aged over 75. For the time being, neither of these important decision making points that could lead to very significant consequences have explicitly been built into the score.

7.17 The Making Ends Meet domain of financial capability measures whether people are able to manage within their available means. It does not measure income per se but does isolate those who have difficulty keeping up with bills or regularly run out of money. The domain score is built upon a number of behavioural and attitudinal statements, including:

- How well an individual currently keeps up with bills and credit commitments / whether they run out of money;
- Whether an individual has experienced financial difficulties in past five years;
- Ratio of unsecured borrowing to saving;
- Use of overdrafts and credit for day-to-day spending;
- Whether an individual plans expenditure and plans ahead for bills;
- Frequency of checking money in current account;
- Attitudes to finance (impulsiveness in spending, more a saver than a spender, preference for buying on credit or cutting back expenditure rather than putting on credit, whether organised in managing money, never late paying bills).

11.3 million individuals have a score for Making Ends Meet in the bottom quartile. Their average incomes are typically lower than those with scores in the top three quartiles, as shown in the graph below:

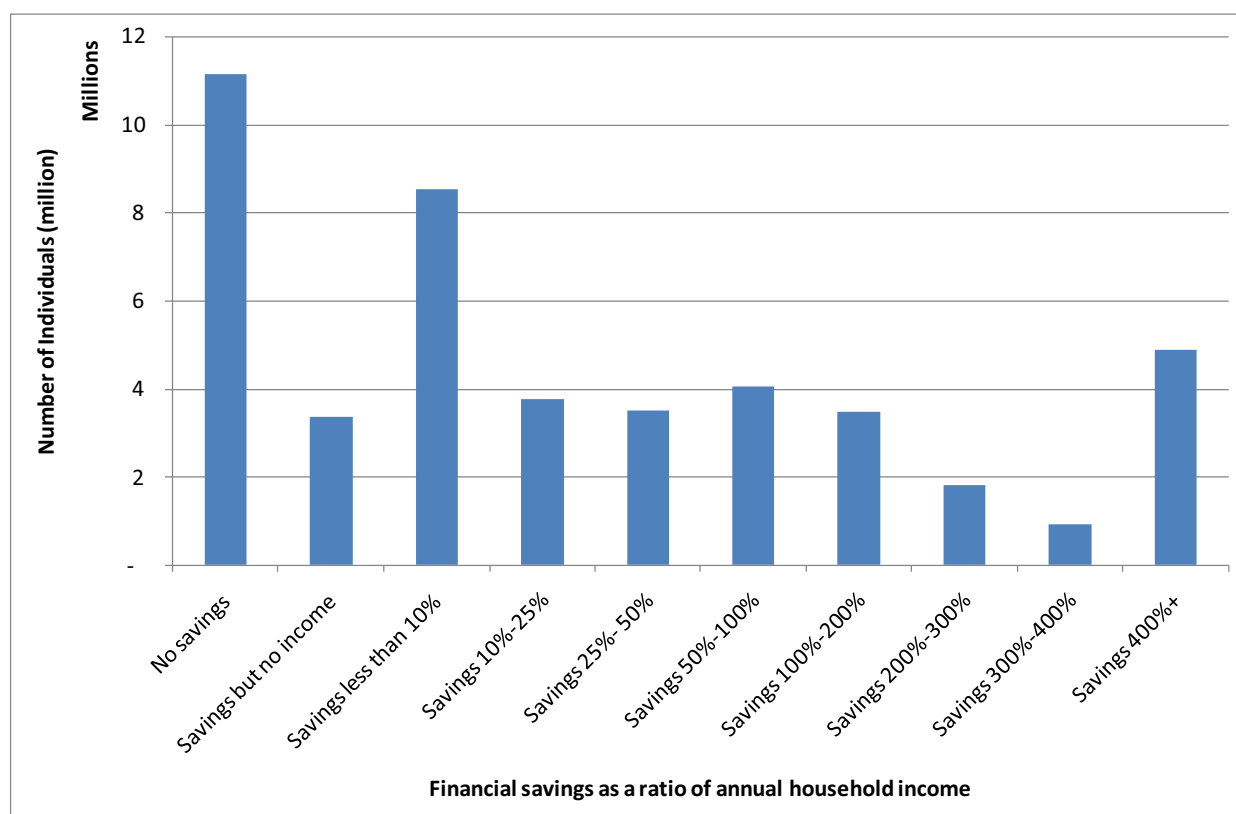
**Average incomes of bottom quartile scores for Making Ends Meet**



7.18 The baseline survey indicates that approximately 25% of the adult population (11 million people) have no financial savings.<sup>21</sup> Of the remaining 75%, just over 8 million have savings of less than 10% of their annual household income. However, at the other extreme, almost 5 million individuals have savings of more than four times their household income.

7.19 Savings do not appear to correlate particularly strongly with debt. Among those with no savings, 31% are over-indebted (measured by unsecured debt being 100%+ of annual household income). However, among those with high levels of savings, this figure levels out at around 20%.

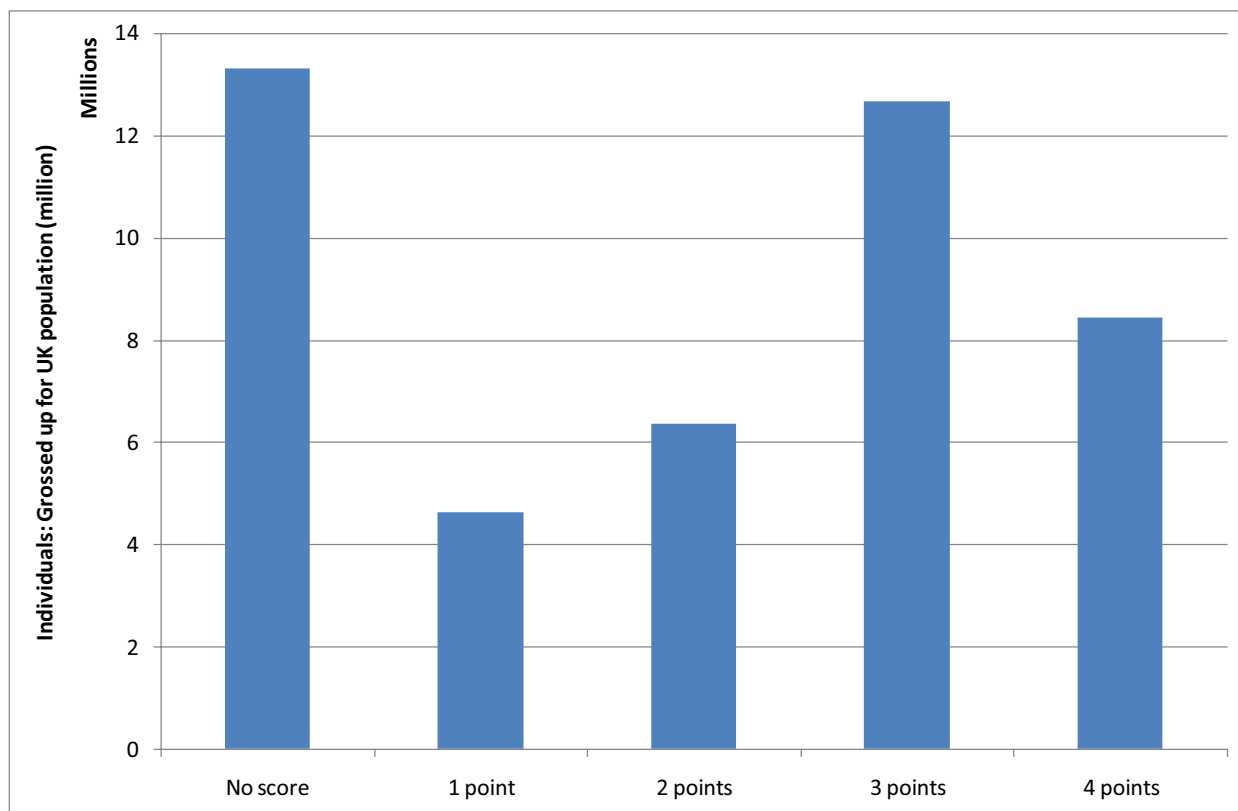
**Financial savings of UK population as a proportion of household income**



<sup>21</sup> Defined here as cash-based savings, life assurance savings products, collective investments, National Savings, shares and bonds. The definition excludes any pension savings.

7.20 When the factors that make up consequences are summed, the distribution of scores is as shown below. Almost one third of the population scores zero on all of the elements of the score and are therefore to some extent protected from the consequences of poor financial decision making through being able to manage their finances and through having savings to fall back on in the event of a loss of income.

**Consequences Scores**



7.21 Among those with 1 point, the major driver is not having a year's worth of household income in savings (77%). The remaining 23% have a low score on Making Ends Meet. For all of the other scores, it is lack of savings rather than making ends meet that drives the score. Those with 4 points struggle to make ends meet and have very little savings.

7.22 **Vulnerability.** The baseline study contains the following information that has been used to define vulnerability. Individuals are considered vulnerable if:

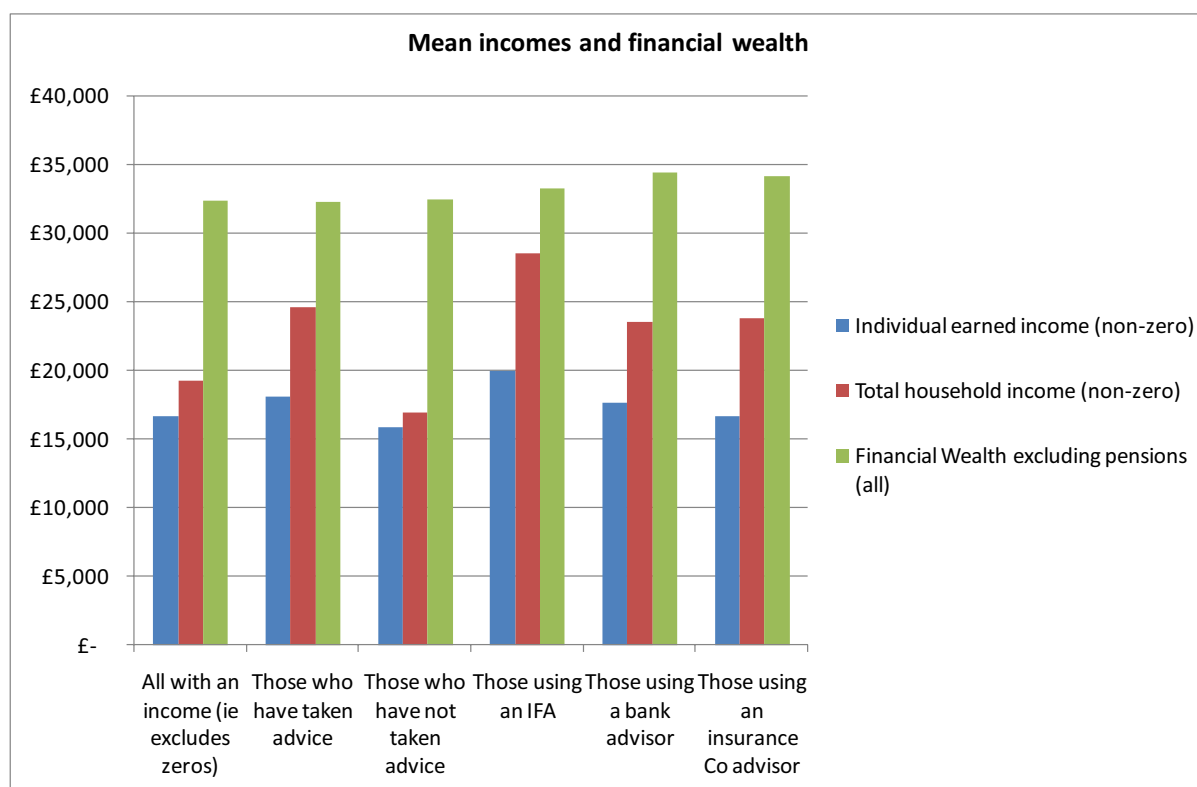
- They have low scores on the financial capability domains of Choosing Products and Staying Informed;
- Their levels of income and wealth levels suggest that they may have limited access to commercial advice services (exclusion from advice);
- They do not have access to a bank account (or other financial products);
- They have low levels of literacy;
- They score highly in the Government's IMD.

An individual is attributed a score of 1 point for each of these elements where they apply. The total score for vulnerability is the sum of these scores. The maximum score for vulnerability is therefore 5 points.

- 7.23 The Choosing Products domain is designed to assess individuals' knowledge of financial products and the actions that they took in selecting their recent product purchases. It does not assess whether the products that they have purchased were suitable to their needs. An individual is classified as vulnerable if their score is in the bottom quartile or they have no score for this domain (those with little or no engagement with financial products were not allocated a score for this domain). The score is based upon the following factors which were derived from a large number of questions in the survey:
- Whether information was collected when selecting products (by themselves or an adviser);
  - The main source of information for active product purchases (whether advice was taken or best buy information was used);
  - Checking whether the adviser was authorised;
  - How respondents chose the products – whether reliant upon another (e.g. an adviser) to choose the best product or supplemented this with own research;
  - Why a respondent chose a particular product – which features of a product (e.g. price, product design) influenced the decision to buy;
  - Whether they, or someone else on their behalf, read the terms and conditions.
- 7.24 The scores for this domain indicate that for those measured, most people scored towards the lower end of the scores for Choosing Products, indicating low levels of capability across the population. Furthermore, analysis indicated that age and experience are important in explaining capability. Those in the age band 18-19 had the lowest average scores whilst those aged 50-59 had the highest scores. Those with low scores hold on average 2.9 different types of product whilst those with higher scores hold on average 4.8 different types. Those on low incomes and those who are not owner-occupiers were also more likely to exhibit low scores, perhaps indicating that house purchase is an important step in gaining experience and confidence in purchasing financial products.
- 7.25 20.3 million individuals either have scores which are in the bottom quartile or no score at all due to lack of recent engagement with financial products.
- 7.26 The Staying Informed domain was developed as a measure of whether people keep abreast of financial matters and their use and awareness of mechanisms for dealing with problems or complaints. Individuals have been classified as vulnerable if their score for this domain is in the bottom quartile. Just over 11.3 million individuals have lowest quartile scores in this domain and 7.9 million individuals have low scores in both Choosing Products and Staying Informed (17% of the adult population).

7.27 Financial exclusion in the context of this report is focused on those individuals who might find it hardest to access financial advice from the commercial sector. The variables used to make this assessment have been based on a combination of income and wealth. Income criteria have been varied according to whether the individual lives in London or the South East or outside of these regions. These criteria are being used as a proxy for a person being economically viable for an adviser to service. The parameters have been set following consultation with trade bodies and observations made in the responses to the call for evidence. However, much of the evidence for this is anecdotal.

7.28 Analysis of the baseline survey shows that those who have used an adviser in the past five years are more broadly spread across the income and wealth spectrum (although this may be based upon higher incomes in the past). There is considerable anecdotal evidence that some advisers are able or willing to serve lower income groups, either cost-effectively or as a loss leader. As the chart below shows, those recently taking advice have incomes only 14% higher and financial wealth that is slightly lower than those who have not. Only household income is significantly higher at 45%.



7.29 The model sets the variable for financial exclusion from advice at 1 point if the individual is:

- Living in the South East or London and has an individual income (after tax and NI) above £15,000 or a household income above £30,000 (after tax and NI) or has savings and investment wealth (excluding pension) above £50,000;

- Not living in the South East or London and has an individual income (after tax and NI) above £10,000 or a household income above £20,000 or has savings and investment wealth (excluding pension) above £50,000.

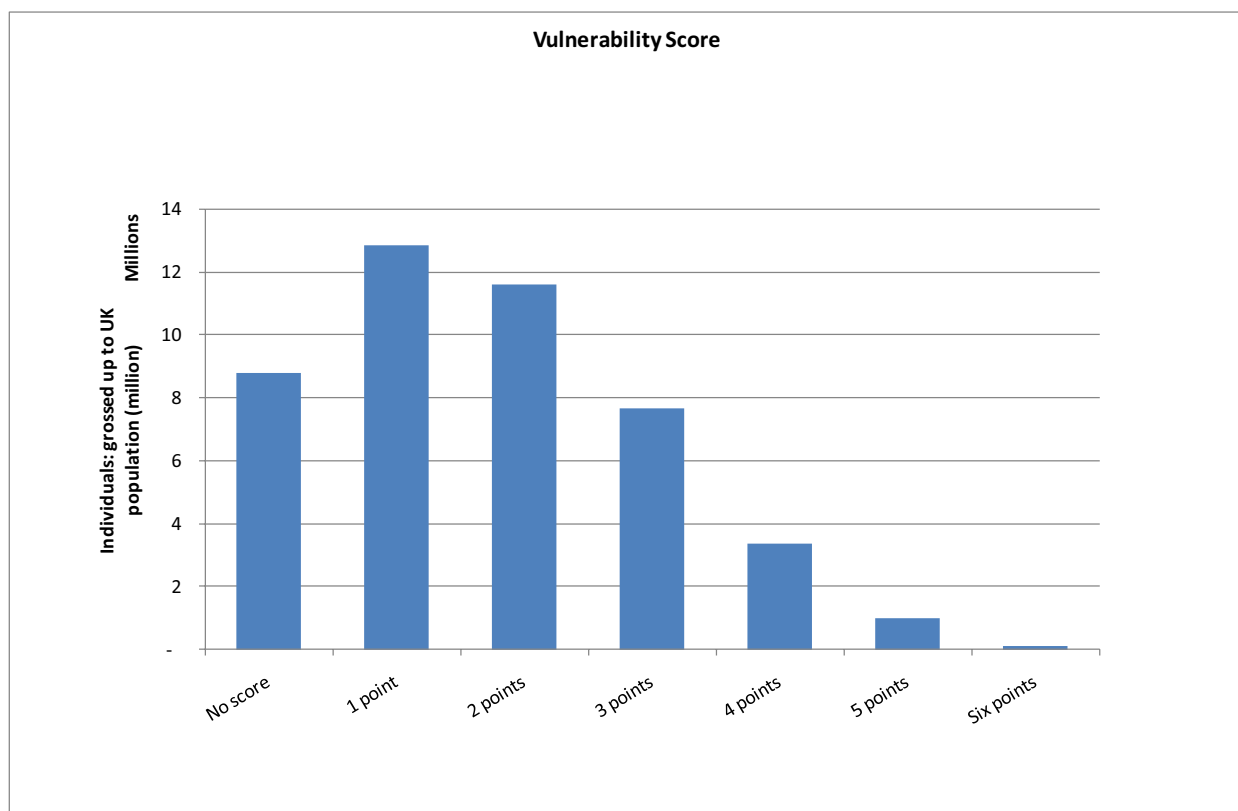
The parameters for this have been based upon anecdotal evidence drawn from conversations with industry experts, indications provided in the responses to the Call for Evidence and data published by the ABI.<sup>22</sup>

- 7.30 On this basis, up to 31.5 million individuals, or almost 70% of the adult population, are not economically viable for advisers to serve. This figure is likely to be overstated due to the number of individuals in the survey recording no income where they are in employment. 6% of the survey respondents, representing 2.8 million individuals, are working but have not revealed any individual or household income data in the survey. The financially excluded could therefore fall to 28.7 million.
- 7.31 Lack of access to basic financial products can also be a source of vulnerability as it may also lead to lack of access to advice from financial institutions (banks or insurance companies). The work of the Financial Inclusion Taskforce has to date been largely focused on those who do not have access to basic bank accounts and/or affordable credit. The baseline survey indicates that 10.8% of the adult population (4.9 million individuals) does not have a bank account, however more than half of these are holders of other financial products, in particular a bank or building society savings accounts, a credit card or a mortgage. Many of these may also be holders of a Post Office Card Account. Indeed the unbanked figures quoted by the Government, based on the Family Resources Survey which measures holders of financial products in a different way, are lower. In the 2005/06 survey, 2 million adults living in 1.3 million households are shown as not holding a bank account.
- 7.32 In the baseline survey, 5% of the population (2.3 million) have no financial products and might be considered as particularly vulnerable due to lack of engagement with financial services.
- 7.33 Those with IMD scores in the bottom two deciles (i.e. the top 20% scores) across all regions of the UK have been attributed 1 point. This approach is simplistic and may not accurately compare those with low scores across England, Northern Ireland, Scotland and Wales. However, since the score forms only one part of a much larger score it was felt that this was adequate for this stage of analysis. A more detailed examination of IMD might yield some refined analysis. A total of 9.1 million individuals (20% of the adult population) have scores in the bottom two deciles of IMD.
- 7.34 Difficulties with literacy have been taken from a variable in the FSA baseline survey which was completed by the interviewers. Interviewers were asked to record whether the individual respondent had trouble either reading or understanding English. A total of 3.7 million individuals score positively against at least one of these.

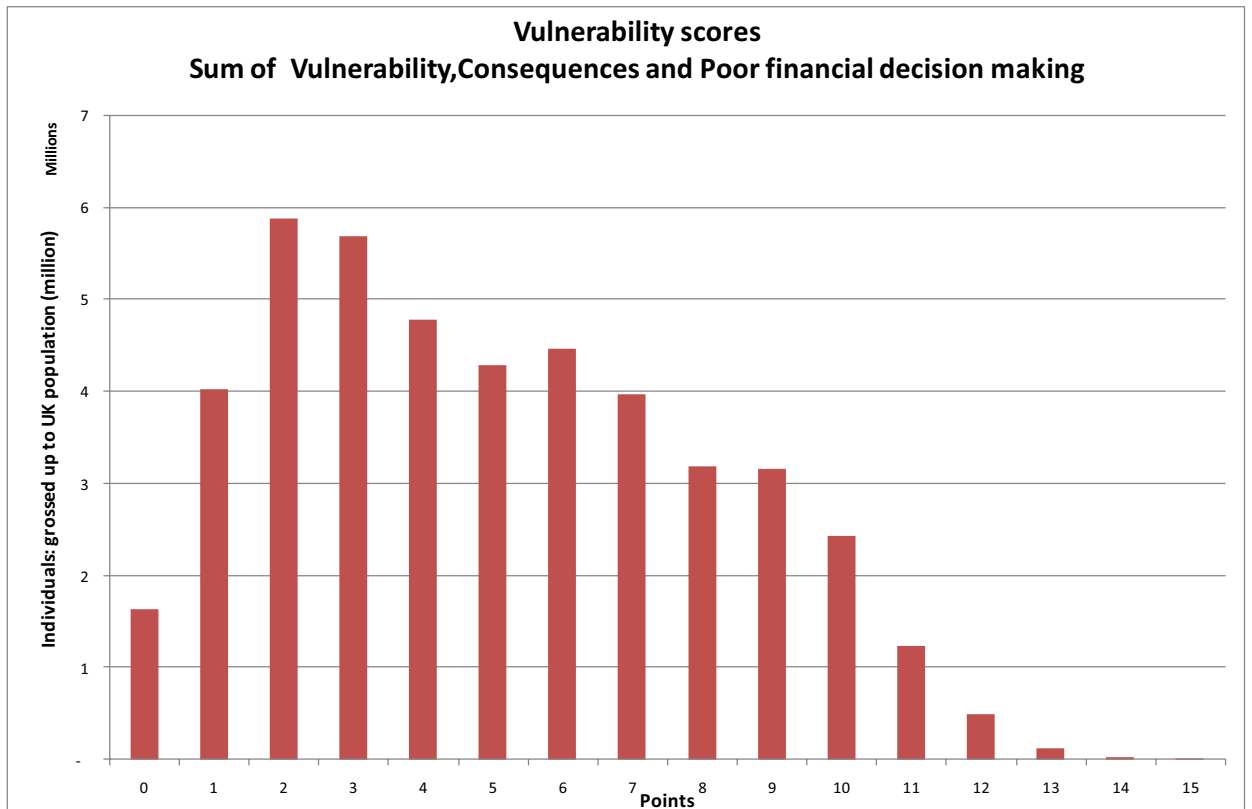
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<sup>22</sup> "Strategies for Tackling the Savings Gap – The Role of the Saver Agent", ABI

7.35 When the factors that make up consequences are summed, the distribution of scores is as shown below. An individual who scored 1 point for each of the components would score the maximum of 6 points. An individual who has none of the characteristics would score zero. Combining the components in this way identifies 4.5 million people with a vulnerability score of 4 or more points. The distribution of scores as follows:

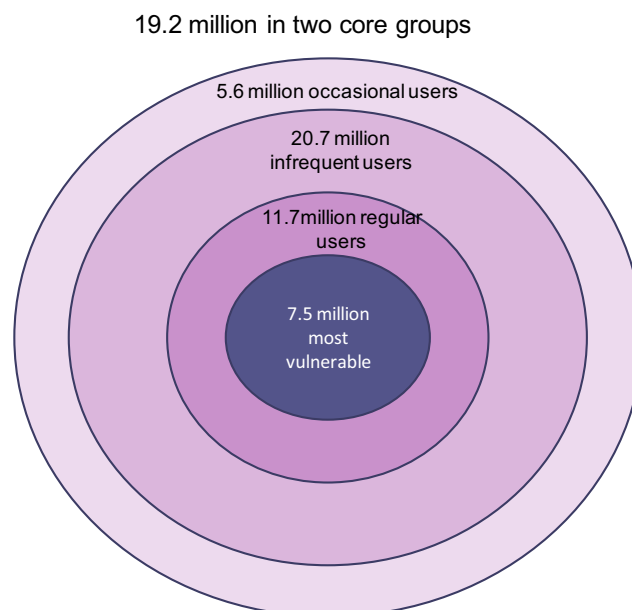


7.36 Summing up the scores of the 'vulnerability' and 'consequences' and 'poor financial decision making' domains provides us with a more complete view of "those most vulnerable...". The maximum possible score from summing all of the factors is 17 but the highest actual score is 15. Summing the scores provides the distribution shown below:



7.37 Very few individuals score 11 points or above and the unweighted sample size for the final few scores is very small. In order to provide us with a group which can be profiled further, all of those with a score of 11 points or more have been grouped together as “those most vulnerable to the consequences of poor financial decision making”. For simplicity, we will call them the ‘most vulnerable’ in the following sections of this report.

7.38 Combining scores 7 points and above gives us the following segment sizes:



7.39 The table below summarises the characteristics of vulnerability that bind each group, their expected needs from a GFA service (hypotheses formed by examining the detailed profile of each group) and their demographic profile.

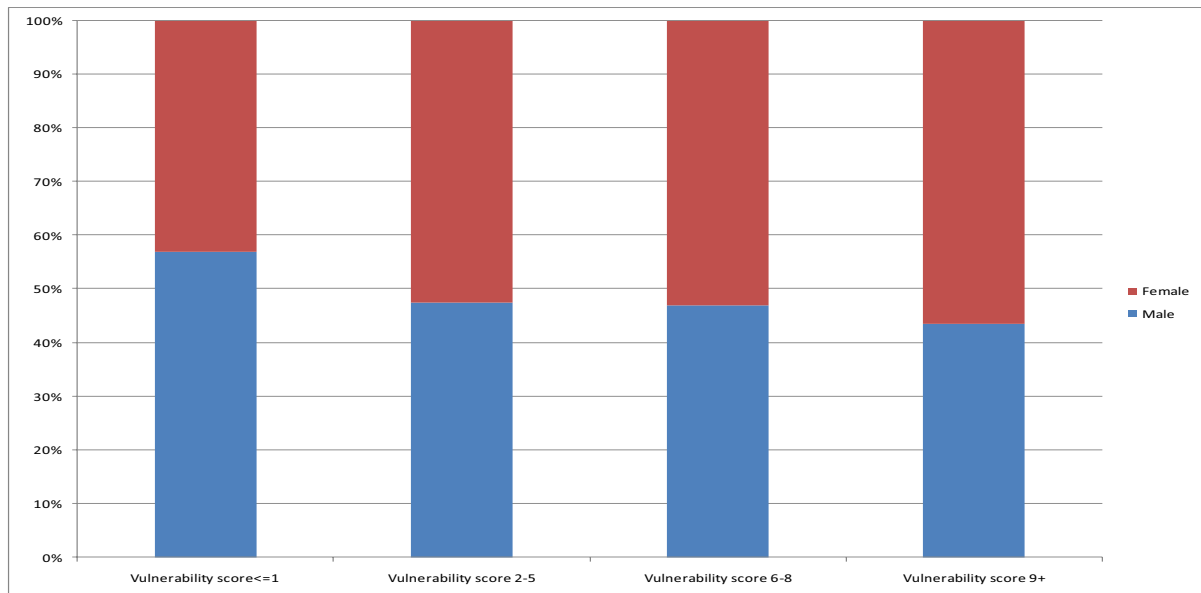
	Most vulnerable	Regular users	Infrequent users	Occasional users
Number of UK adults	7.5 million	11.7 million	20.7 million	5.6 million
Vulnerability	Multiple drivers of vulnerability: lack of access to commercial advisers, poor planning ahead, very limited savings or protection, limited financial portfolio and therefore limited knowledge of products, difficulty making ends meet and over-indebtedness (almost half). Many who are working have no pension. One in five may have literacy problems and 50% live in areas with high levels of multiple deprivation.	Vulnerability driven primarily by not being adviser prospects (majority), not being experienced at choosing products, some lack of savings, over-indebtedness (one in three). Showing signs of not being good at planning ahead and more than one in three with low scores on making ends meet. However, generally good at keeping track of money and many have some savings. One in ten may have literacy problems and >20% in areas with high levels of multiple deprivation.	Vulnerability driven primarily by not being adviser prospects (about two-thirds), not being experienced at choosing products or not good at keeping track of their money. Results in some over-indebtedness (around 1/3 <sup>rd</sup> ) and some lack of savings but generally good at planning ahead and staying informed. At upper end of scores, some struggling to make ends meet. Small number have literacy problems and one in ten in areas with high levels of multiple deprivation.	Some lack of access to commercial advice and poor at keeping track of money but otherwise no significant signs of vulnerability. Consequences of subsequent poor financial decision making unlikely to be significant for many (due to relatively high level of saving). Not at risk due to poor financial capability. No strong evidence of poor decision making.
Expected needs of GFA	Approximately half of this group might be expected to require either crisis intervention or support from other agencies. Others expected to need help with pre-crisis managing debt and budgeting. Personal Account prospects.	Some crisis intervention but majority could gain help with interpreting products, managing debt, increasing savings and budgeting. Personal Account prospects.	Many of this group are capable of finding information and advice without the support of GFA. They do, however, need help in understanding products and some money management techniques. Focus on jargon busting.	Majority will not require targeted support from GFA. However, this group includes many approaching or in retirement. Some support may be required in complex areas such as annuity purchase and equity release.
Demographics	Average incomes 60% of national average. All household incomes <£40,000 after tax. Approx 20% have no financial products (yet). On average hold one banking or saving product types. 30% has no bank account. Much younger than average, 70% aged under 45, 8% aged over 65. Slightly less likely than average to be working but more likely to be working part time. Slightly more female than male. Many more singles, separated and divorced than average. Only 25% married. Approx 25% single parents. Higher than average in Wales, Scotland, NI and in England in NW, NE and London. Slightly higher than average non-white. Lower education levels than average (20% A levels and above). <20% own their own home, half in social housing.	On average incomes slightly lower than national average – almost half with incomes between £10k and £30k after tax. Approx 5% with higher incomes. On average hold two banking / savings product types. Younger than average, 62% aged under 45, 16% aged over 65. Slightly more likely than average to be working full time. Slightly more female than male. More singles and divorced than average but >40% married. >15% single parents. Higher than average in NW, NE, W. Midlands and London. Slightly higher than average non-white. Slightly lower education levels than average. <50% own their own home, more social housing and more private renting than average.	Incomes higher than national average – fewer very low incomes than least vulnerable but also fewer very high incomes. On average hold four banking / savings product types. Age more typical of population. 45% aged under 45, 22% aged over 65. Slightly more likely than average to be working full time. Slightly more female than male. Slightly more likely to be married than average and with dependent children. Broadly geographical spread. Ethnic mix closer to population average. Slightly higher education levels than average. Three quarters own their own home, less social housing than average.	Typically higher income and/or wealth (although one in three have household income <£10,000pa after tax). On average hold seven banking / savings product types. Older (60% over 55). Half have retired, most of remainder in full time work. More male than female. Predominantly married (but most no longer have dependent children). More likely than average to live in SE, SW, East of England or Yorkshire. Less likely than average to live in London, NE or Wales. Few non-white individuals 60% A Level or above. >90% own their own home (>30% no mortgage).

7.40 The following section of this report provides a more detailed profile of the four groups outlined above.

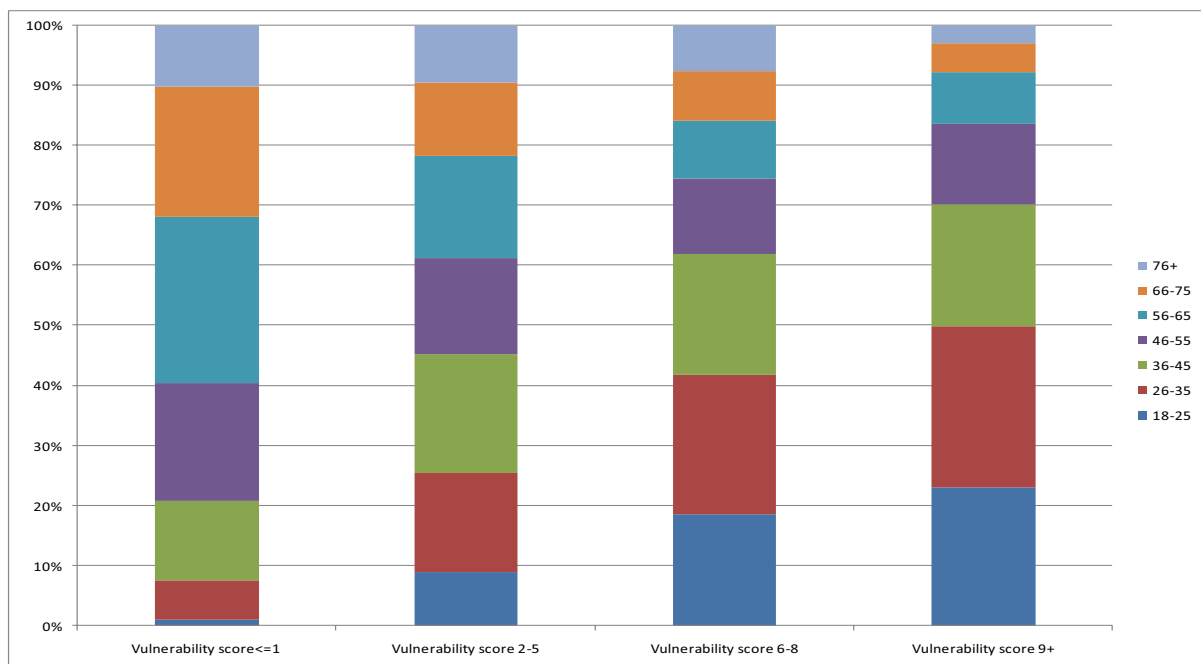
## 8 Profiling the Target Market

8.1 This section provides a detailed profile of the target market through further analysis of the FSA's baseline survey. By way of shorthand, the group with scores of 9 points or more is referred to as the 'most vulnerable' group whilst those with a score of 1 point or less is referred to as the 'least vulnerable' group.

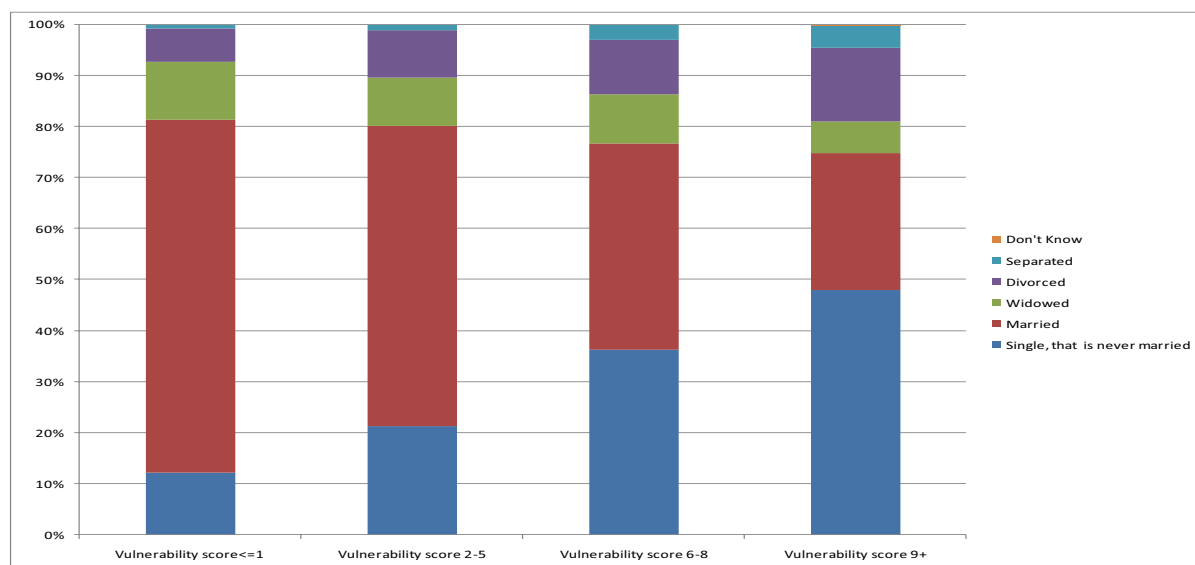
8.2 Gender - 57% of the most vulnerable group are female compared to 43% of the least vulnerable.



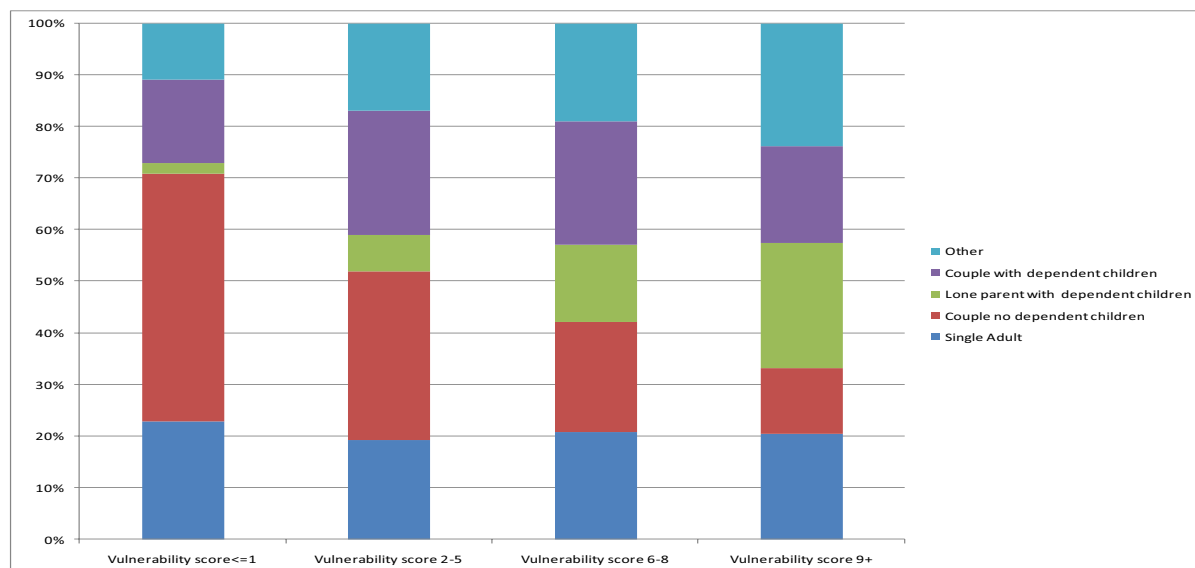
8.3 Age – 70% of the most vulnerable group are aged 45 or below and half are aged under 35. Average ages fall from 58 in the least vulnerable to 39 in the most vulnerable.



8.4 Marital Status – people in the most vulnerable group are significantly more likely to be single and never married (48%) or widowed, divorced or separated (25%) than the population as a whole and those in the least vulnerable group. Among the least vulnerable, married status is significantly more dominant.



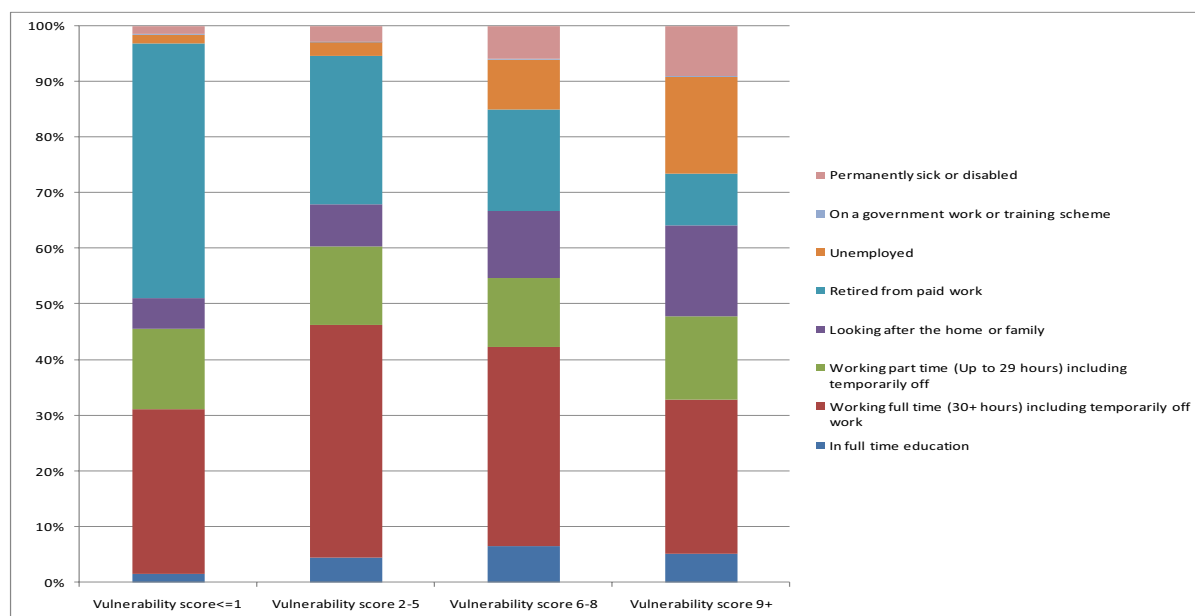
8.5 Lifestage / age of children – 24% of the most vulnerable group are single parents with dependent children. The most vulnerable are much less likely than average to be in a couple with no dependent children.



8.6 Ethnic group / migration – 15% of the most vulnerable group were not born in the UK compared to 10% across the whole population. Irish White and all non-white or mixed-race groups are over-represented among the most vulnerable.

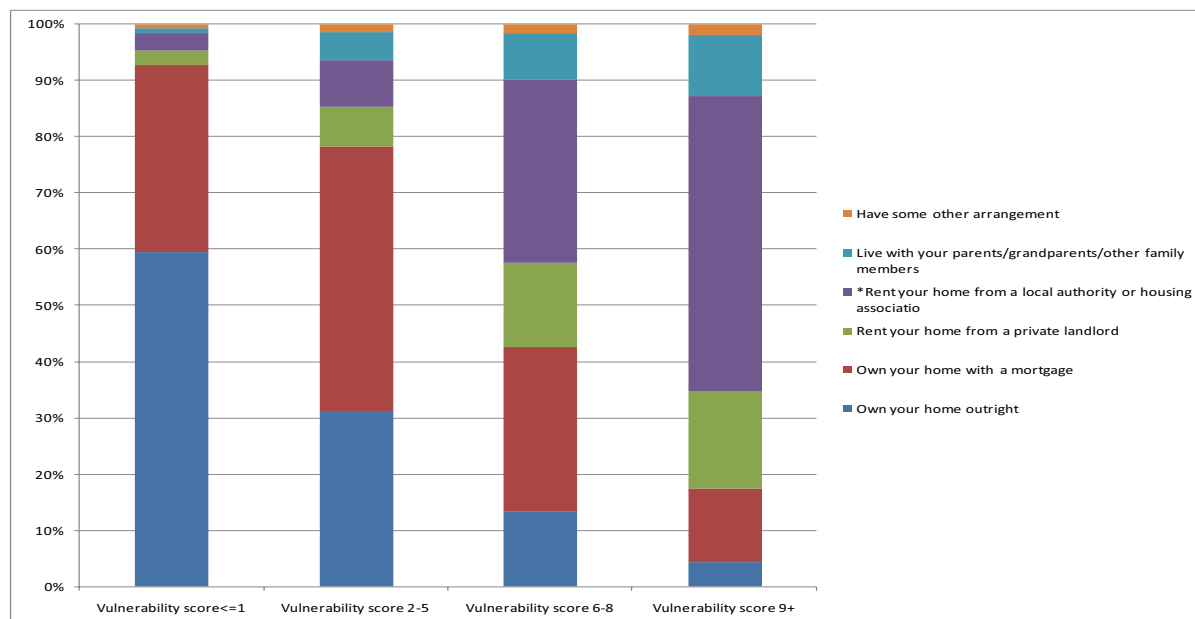
8.7 Qualifications – 32% of the most vulnerable group have no qualifications and of the remainder, the majority has reached O level / GCSE. However, a very small number of those with post-graduate qualifications appear in the most vulnerable group.

8.8 Working status – 43% of the most vulnerable group is working – slightly lower than across the population as a whole. Only 9% are retired, 26% are unemployed or long-term sick, 5% are full-time students and the remainder (16%) are carers. The proportion of retired is highest in the least vulnerable group.



8.9 Region – people in the most vulnerable group are slightly more likely than average to be living in Northern Ireland, Wales or Scotland. Within England, the most vulnerable group is slightly skewed towards London, the North West and the North East.

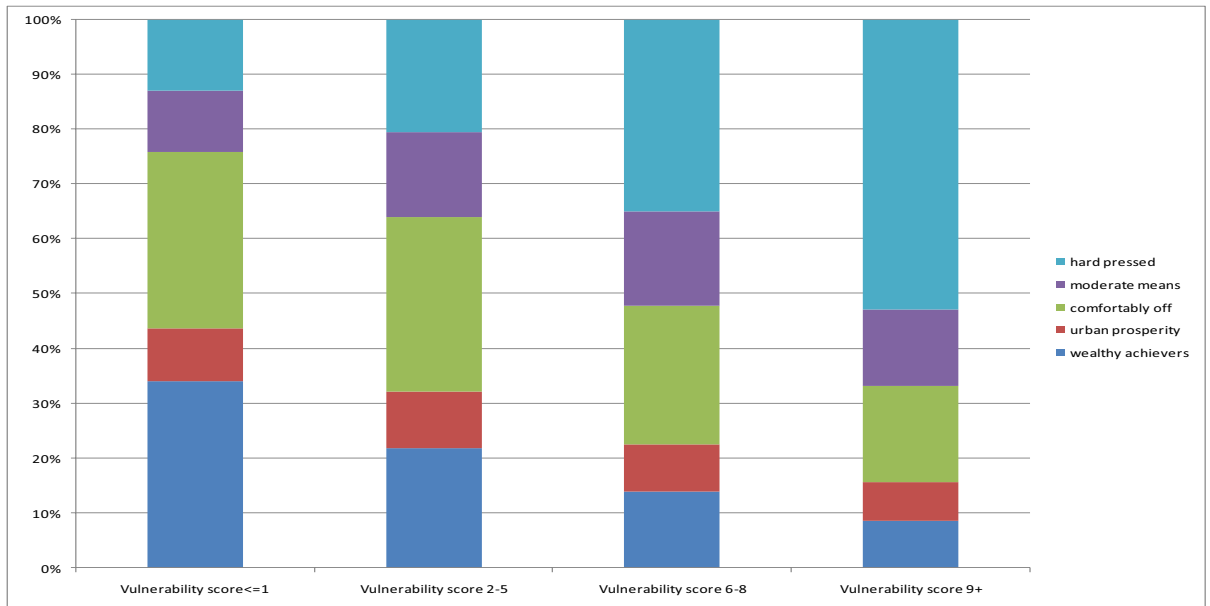
8.10 Housing tenure – people in the most vulnerable are significantly less likely to own their home, with or without a mortgage. More than half rent their house from a local authority or housing association. A further 11% live with their parents and 17% rent privately.



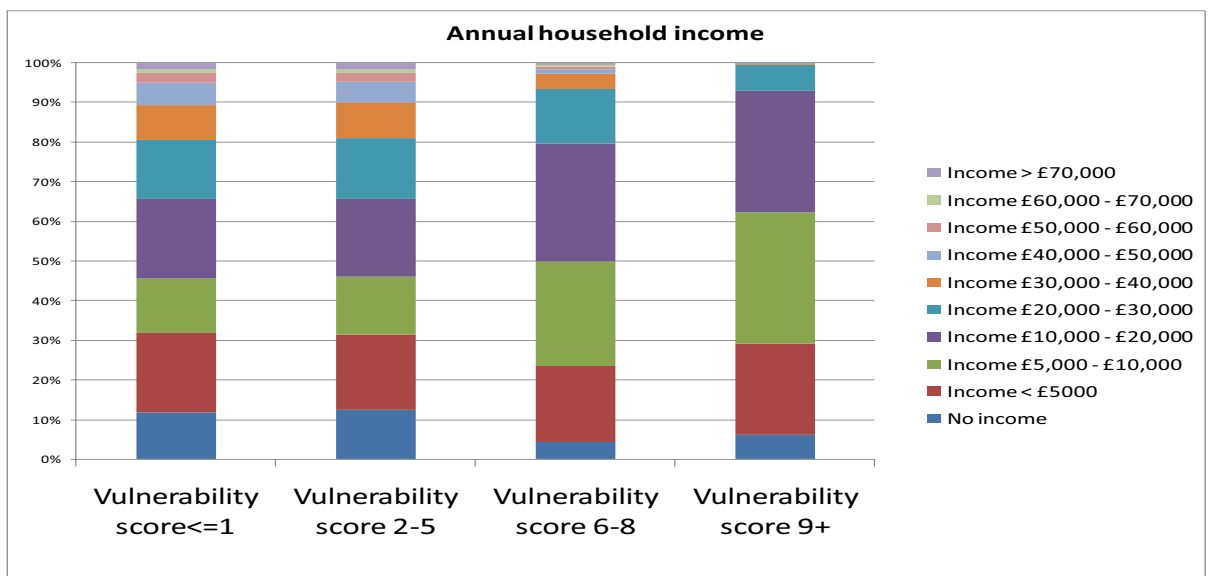
8.11 Geo-demographics - analysis of Acorn categories reveals that whilst more than half of the most vulnerable group live in areas of the country classified as 'Hard Pressed'. Of the remainder:

- 9% are Wealthy Achievers;
- 7% live in Urban Prosperity;
- 13% are Comfortably Off; and
- 14% have Moderate Means.

The chart below shows how the Acorn segments vary by vulnerability scores.

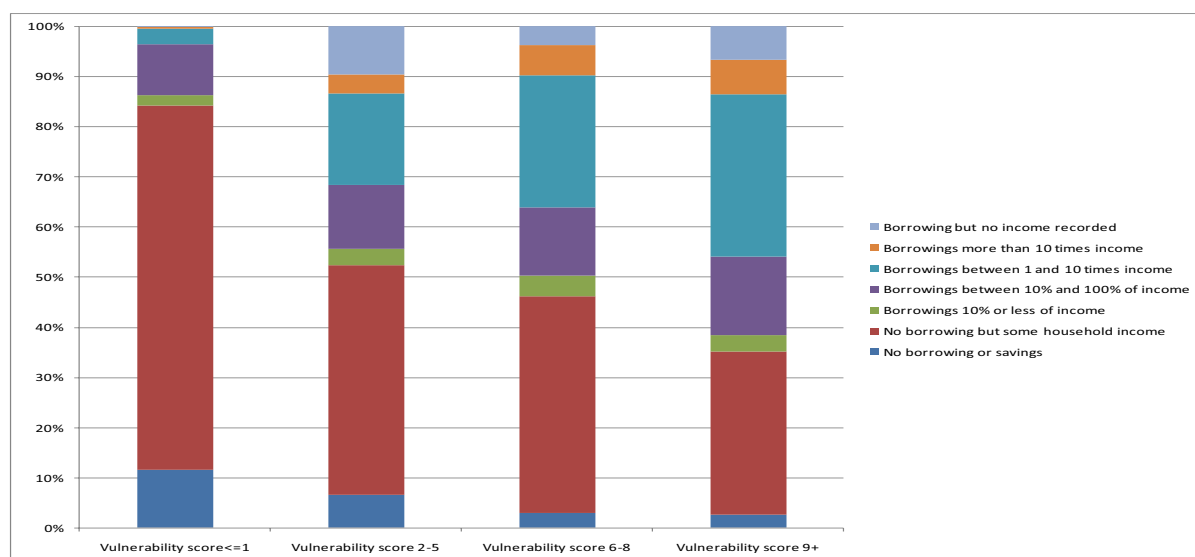


8.12 Household income - 93% of the most vulnerable group live in households with an after-tax income of less than £20,000 compared to 66% of the least vulnerable. Mean household income for the most vulnerable is 60% of the national average compared to 114% for the least vulnerable.



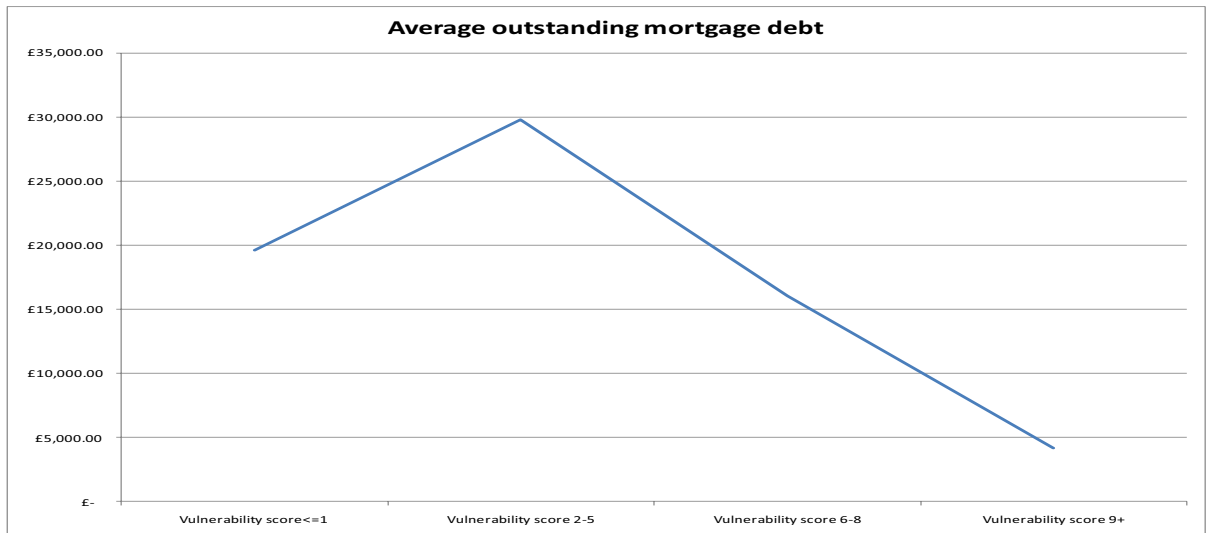
The picture is, however, more complicated than a simple correlation with income. Many of those who are least vulnerable live in households with very low income. Whilst many of these are retired and living on the basic state pension, some are reported to be working full time. Income is used in one element of the 'vulnerability' scores – as a parameter for defining whether an individual is economically viable for a commercial adviser to serve. Some relationship between the score and income would therefore be expected.

8.13 Unsecured debt - 65% of the most vulnerable group have some unsecured debt compared to just below 50% of the total adult population. The ratio of unsecured debt to income is also higher among this group, with more than one in ten borrowing more than 10 times their annual income or having no income. On average, the most vulnerable group has almost £2,500 of unsecured debt (includes zeros) whilst the least vulnerable has £336. The debt profile is driven in part by the inclusion of over-indebtedness in the 'vulnerability' score.

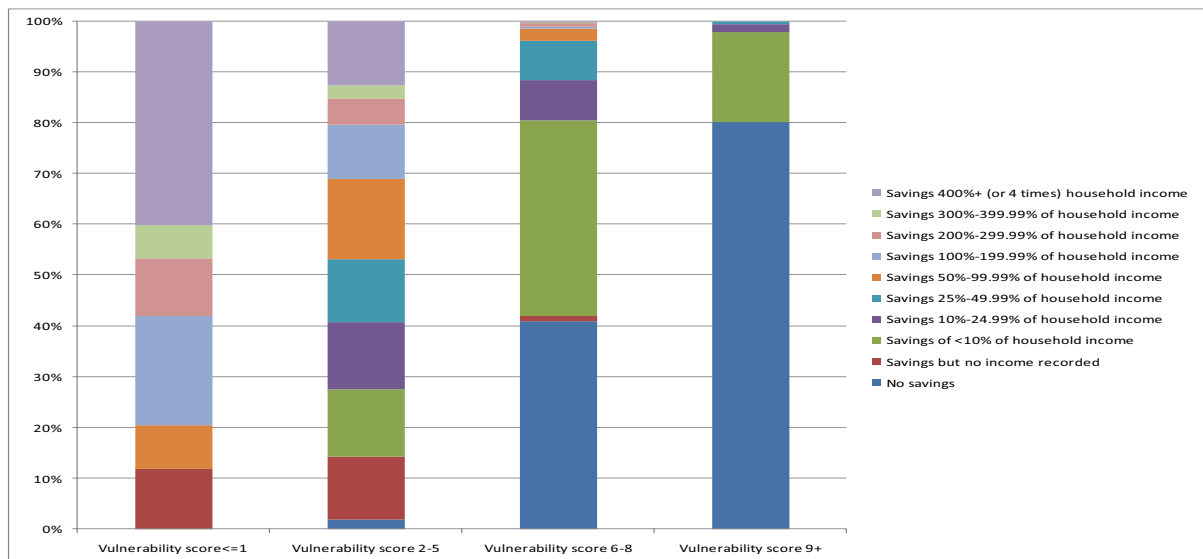


8.14 Mortgage debt - the picture for mortgage debt is somewhat different with many of most vulnerable not having a mortgage. Average mortgage debt (including zeros) is highest among those with a vulnerability score of 2-5 points and falls away among those with a higher score. Of those with a mortgage in the most vulnerable segment (9%), one in three feels that they would struggle with their mortgage and/or other financial commitments if their mortgage payments were to rise by 10%.

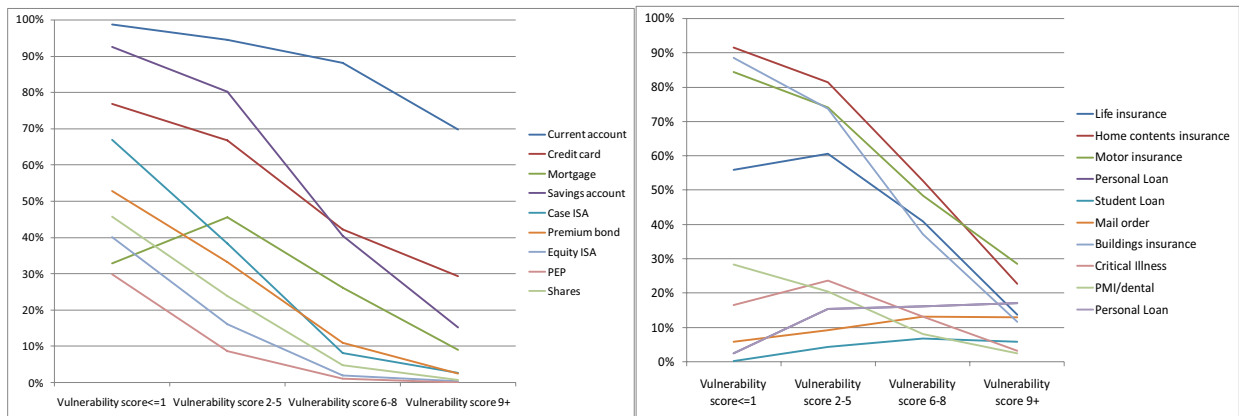
Overall, average debt levels (unsecured and mortgage combined) among the most vulnerable group are lowest at 73% of average income and highest among those with scores of 2-5 points at 192% of average income.



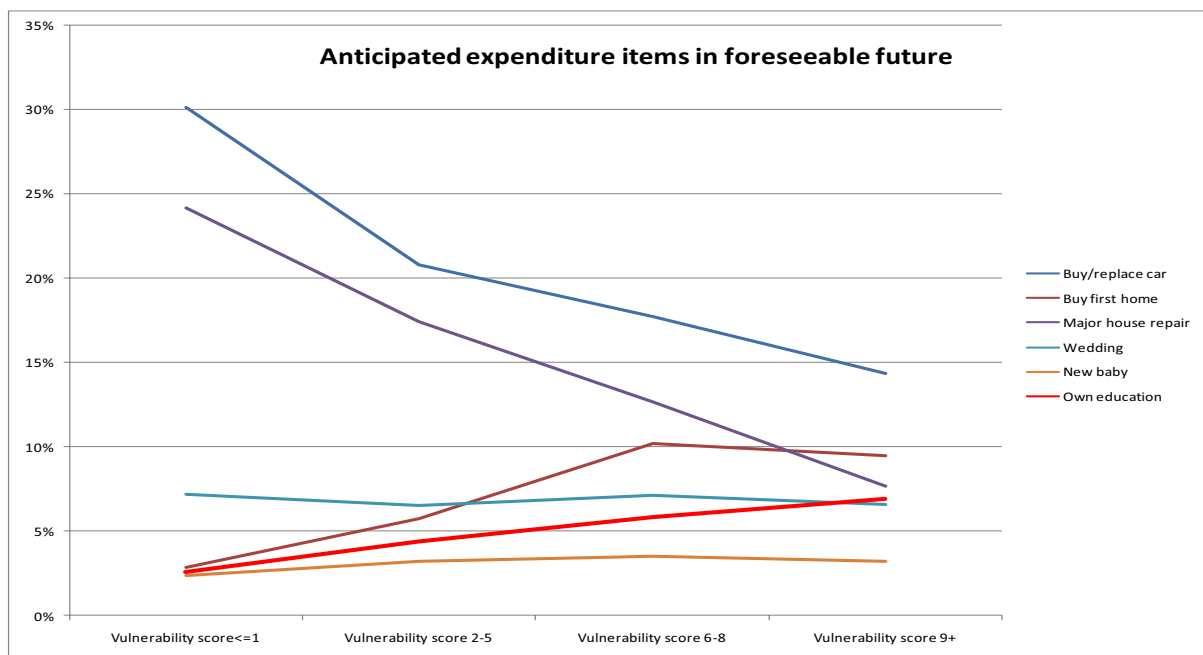
8.15 Saving activity - the majority of the most vulnerable group (80%) do not have any savings. Most of the remainder have less than 10% of their annual household income in savings (less than two months of income). The savings profile is driven in large part by the use of savings in at least five elements of the overall 'vulnerability' score used in this analysis.



8.16 Product holdings - 23% of the most vulnerable group hold no banking or savings products (driven in part by the inclusion of this in the scoring) whilst 36% own no insurance products or loans. Just over two-thirds hold a bank account, only 15% a savings account and only 4% a personal pension. However, they are also significantly less likely to have a credit card or a mortgage. The chart below shows the most significant products held across all of the groups.



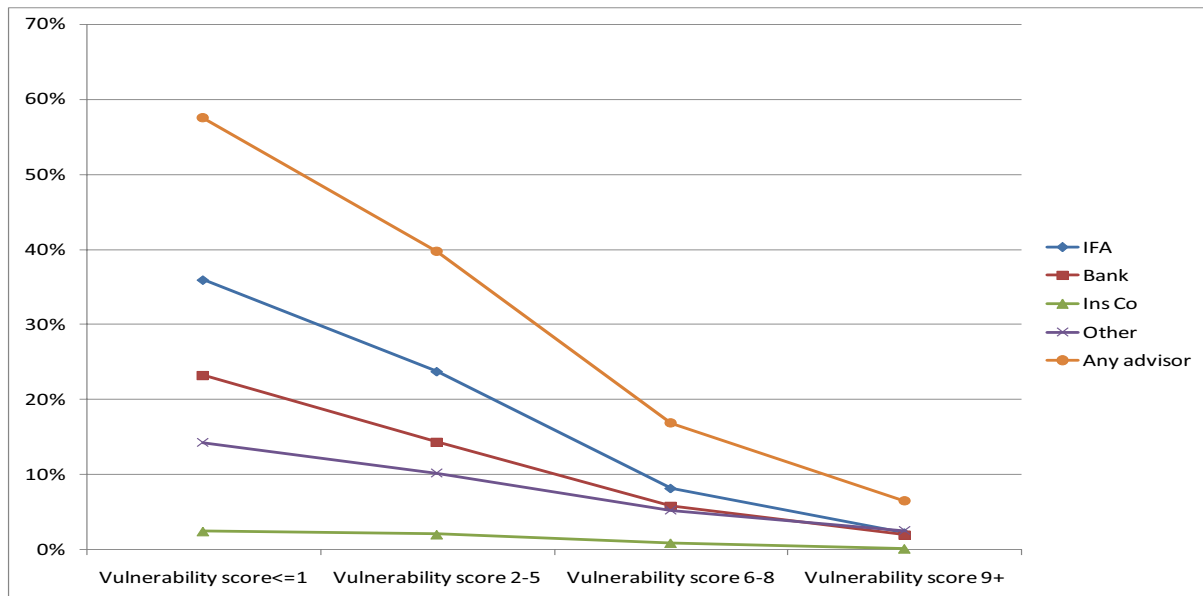
8.17 Future expenditure - a question posed about future major expenditure items sheds some light on future expectations. One in ten of the most vulnerable group and those with scores of 6-8 points expects to buy their first home in the foreseeable future. Approximately 7% of both groups expect to have to finance their education further. Among the least vulnerable group, future expenditure is more focused on home improvements, cars and travel.



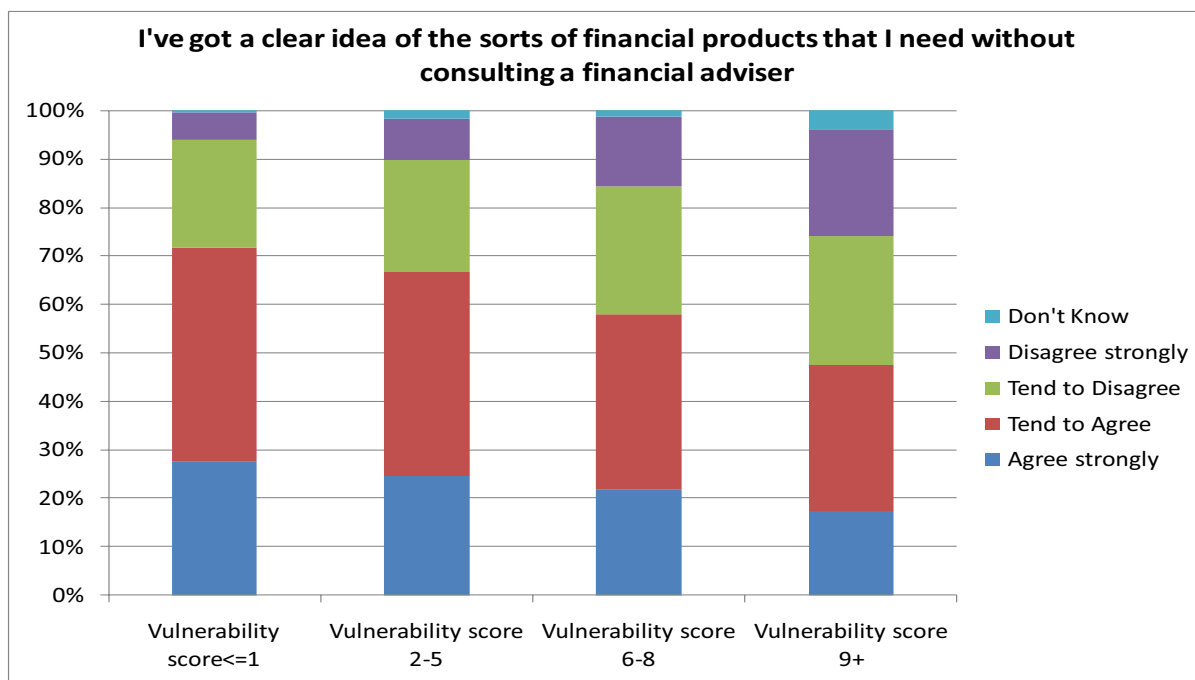
8.18 Money management - in spite of lower incomes, the majority of the people in the most vulnerable group do not regularly go overdrawn on their current account and many (51%) have money left over at the end of the month.



8.19 Use of advisers - only 6% of the most vulnerable group have received professional financial advice within the past five years (compared to 31% across the population as a whole). Among the most vulnerable who have seen a financial adviser, one-third classify their adviser as an IFA, one-third as a bank and one third 'other'. Almost one half of the least vulnerable who use an adviser classify them as an IFA.

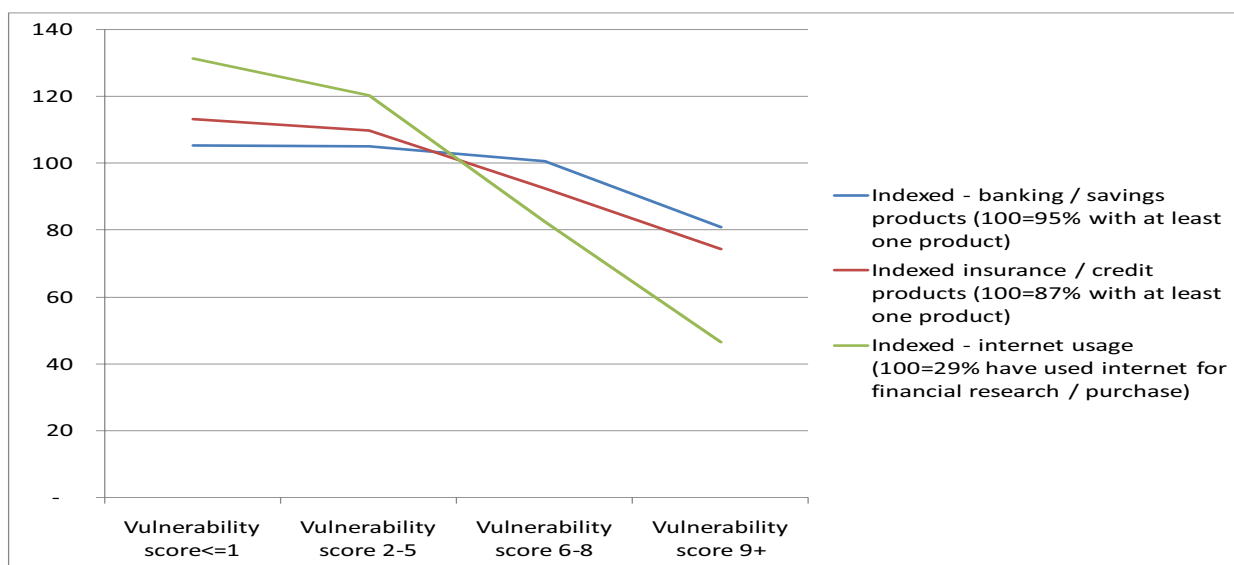


8.20 Although people in the most vulnerable group have little experience of financial advice, they are the least likely to feel that they have a clear idea of their own needs without consulting an adviser. 76% of the most vulnerable feel unable to choose a suitable pension or investment for themselves compared to only 48% of the least vulnerable.



8.21 Although financial planning advisers are not used extensively among the most vulnerable group, almost twice as many (11%) have sought advice over financial difficulties in the past few years (compared to 5% of the whole adult population). Among the most vulnerable who have sought advice, Citizen’s Advice Bureaux have been the most commonly used source of help (63% of the 11% who sought advice used this service).

8.22 Use of internet – people in the most vulnerable group are the lowest users of the internet for financial product research. This is partly explained by their lower levels of ownership / purchase of products. However, as the chart below shows, usage of the internet declines more steeply than ownership of products, perhaps suggesting a lack of access to the internet, an aversion to using the internet for financial products or a less active role in shopping around when buying.



8.23 Financial attitudes and behaviour - many of the attitudes included in the financial capability baseline survey are incorporated into the domains used to describe capability. Given the use of the domains in the scores for vulnerability, it is natural therefore to see some relationship between the groups and attitudes. However, there are a few attitudes and behaviour which provide possible clues as to the types of problems and issues that a GFA service might need to deal with if targeted on those with higher scores:

- half of the most vulnerable group regularly find themselves late paying bills;
- one-third accept that they may have to pay for everyday expenditure on credit cards, even if they are unable to pay the debt at the end of the month;
- more than two-thirds would rather buy now on credit than save up;
- 40% admit to being impulsive when it comes to buying things that they cannot really afford;
- Almost three in four agree that they would rather live well today than save for retirement;
- Only 40% agree that they tend to have enough money saved for a rainy day.

8.24 The profile outlined above provides clues to the needs of the target market for GFA. However, much more will need to be learned from the consumer research and evidence from the pilots to confirm the scope, content, engagement tone and media to be used. The final section of this report draws some preliminary inferences about the lessons learned for implementation of GFA.

## 9 Implications for GFA design

- 9.1 The profiles of the most vulnerable groups outlined above provide us with some clues about their likely needs of a GFA service, the design of the service and the issues for engaging consumers. The clues we have provide us with some early thoughts on the scope and content of the information and guidance to be supplied and on partners with whom a GFA service might work.
- 9.2 In shaping the content and scope of the GFA service to meet the needs of the most vulnerable people, it will be important not to replicate the crisis intervention services that already exist across Government and the third sector. As the Review's terms of reference state, the focus of the service is on prevention rather than crisis support. Some of those most vulnerable will require access to crisis support before they ever move on to any preventative measures. However, not all individuals in the most vulnerable groups are in crisis. The profile outlined above suggests the following needs across the four vulnerability groups:
- Some in the most vulnerable group need help with day-to-day money management issues – budgeting, paying bills, understanding their financial position. Others who have some money to spare at the end of the month may need help with re-scheduling their credit payments or starting to save. Some expect to buy their first home in the near future and will need help with saving for a deposit and finding a mortgage. Facing up to credit issues before they become a crisis will be a need for many in this group. In the lead up to the implementation of Personal Accounts, many will need help with whether to join the scheme, and if so how to invest their money. Whilst many in the most vulnerable group may be in need of crisis intervention in relation to their debt position, some may also call upon GFA for other financial matters, for example how to claim on their car insurance.
  - Those with 6-8 points have a similar range of issues but with less emphasis on day-to-day money management. Being slightly more affluent and slightly older than the most vulnerable, this group may require help sorting out their longer term financial matters, such as life cover, starting a pension, saving for their children. Some in this group are retired or approaching retirement and may need help with releasing equity from their homes, financing long-term care or purchasing annuities at retirement.
  - Those with 2-5 points have relatively high levels of financial capability and high levels of product ownership. However, many will not be attractive customers to some commercial providers of advice and they may still feel the need for a service that provides them with information about products (jargon busting) and links to other sources of information.

- The least vulnerable appear to have least need for a GFA service, however their levels of financial capability will almost certainly mean that they become aware of a service and may choose to use it as a supplementary source of information. Even within this group, needs may arise that cannot be met through either existing market knowledge or through an adviser relationship. This is particularly true of some of the older, low-income individuals in this group, who may need help with financial matters of which they have no previous experience – equity release and funding long term care being the more obvious.
- 9.3 Whilst our analysis provides some clues as to which media will work best with which groups, conflicts are also evident. The most vulnerable are younger than average, which would imply the use of modern technology. However, this group also contain a significant number of individuals with literacy problems and very low levels of financial capability, which would imply a more personal service. Those who are less vulnerable are older, which would imply a more phone-based solution, and yet they are the heaviest users of the internet for financial issues. Further work will be required in order to identify the most appropriate mix of media for each group.
- 9.4 The tone of engagement and brand will need to vary across different groups, depending in part upon the media being employed and the needs being met. To attract the most vulnerable, a tone which appeals to the young would seem to be most appropriate. However, this may prove incompatible with trying to provide a more holistic approach. Considerable work will be required in this area to provide a service which does not alienate any of the groups to whom the service is targeted.
- 9.5 Links with other organisations are likely to be a part of the national GFA service and are being piloted. Some appropriate links are evident from the profile above. For the most vulnerable, links to existing money advice services and Citizens Advice in particular appear appropriate, as may be links to organisations dealing with the younger adult. All users may benefit from links to the FSA and the Financial Ombudsman Service. For older users, links to specific agencies and third sector organisations dealing with the older individual may be more appropriate.
- 9.6 Whilst our analysis provides some clues as to the likely needs of the most vulnerable groups, much is not yet known about them. Further work will be required to identify:
- Ways of engaging with the most vulnerable, in particular media and messages that are most likely to attract those who need information and guidance on financial matters;
  - Ways of delivering the advice, both organisations and media (phone, internet and face-to-face) that can and will be accessed by the most vulnerable groups;
  - Types of support and information the most vulnerable will need.
- 9.7 Some of this work is already underway through original market research undertaken both before and during the Thoresen pilots for GFA. The profile of the users of the pilots will provide greater depth of information to help shape recommendations for the national GFA service.
- 9.8 Further analysis may be possible using research from other organisations and initial exploration of possibilities has started.



# Thoresen Review

Target Market Analysis for  
Generic Financial Advice

Jackie Wells  
October 2007



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My thanks to those organisations kind enough to review and comment on this work, namely:

- Resolution Foundation
- Personal Finance Research Centre;
- Department for Work and Pensions;
- Financial Services Authority;
- National Social Marketing Centre;
- Which?;
- The Financial Inclusion Taskforce;
- The Social Exclusion Taskforce;
- HM Treasury officials;
- Various individuals from the financial services industry;
- Members of the Thoresen Review team.

## 1 Summary

- 1.1 In January 2007, HM Treasury published a paper describing the Government's long-term approach to financial capability. As part of the Government's approach, the Economic Secretary to the Treasury invited Otto Thoresen to research and to design a national approach to Generic Financial Advice (GFA). Included in the terms of reference was a requirement to recommend "the most effective way of serving different groups of consumers, ensuring effective targeting of **those most vulnerable to the consequences of poor financial decision-making**". This report examines the market for GFA and in particular explores how the term "those most vulnerable to..." might be interpreted, how many people might be classified as such and who, in general terms, they are.
- 1.2 In March 2007, Otto Thoresen issued a Call for Evidence, requesting input from a range of stakeholders on a number of aspects of the design of GFA. This included questions on the scope and nature of the target market. The key conclusions drawn from the Call for Evidence which have a bearing on this report include:
- That the service will have finite resources and that marketing of the service should be targeted at "those most vulnerable to..."
  - A clear majority view emerged that the service should be universal and inclusive and that no specific groups should be excluded or explicitly steered away. It was felt by many that almost all adults could benefit in some way from GFA at some point in their lives. A small minority of views emerged suggesting that certain groups could be steered away from the service (through marketing), swiftly cross-referred to other agencies (through a triage service) or should not form the primary target groups, with the greatest consensus for exclusion being around those for whom commercial advice services are economically viable. Others were concerned to ensure that all groups were given the opportunity to engage with a preventative and constructive financial advice service (rather than just falling back on crisis intervention services or other existing agencies).
  - That the service should not duplicate those crisis intervention services or other financial exclusion services that exist already but should rather be focused on preventative measures.

Section 3 of this report provides a more detailed summary of the responses to the Call for Evidence.

- 1.3 A considerable bank of existing research is available that might help to define the target market for GFA (see section 4). However, it was felt that no single approach taken so far, either to define the target market for generic advice or more generally support in improving financial capability, was sufficiently inclusive or comprehensive enough to define the users of a national system of GFA within the terms of reference for the Thoresen Review. The report therefore sets out both a theoretical description of the target market (in section 5) and the conclusions from an exercise of modelling the UK population using indicators of vulnerability drawn from the FSA's financial capability baseline survey.

1.4 The expression “those most vulnerable to the consequences of poor financial decision-making” can be broken down into three component parts: vulnerability, consequences and poor financial decision making. Of the three components, poor financial decision making is perhaps the easiest to identify or define, although even here judgements are necessary (e.g. is saving for retirement a rational act for moderate income consumers?). The sections immediately below describe a theoretical approach to describing the target market.

1.5 **Poor financial decision making** may stem either from action or inaction. Individuals may either take actions that are inappropriate or, as may more often be the case, fail to make a positive financial decision. Examples include:

- Failing to protect the financial security of the family through savings and/or insurance;
- Taking too little or too much risk when saving or investing;
- Excessive borrowing;
- Buying a product with high charges or, in some cases, buying the cheapest but inappropriate product.

Section 5 contains a full list of possible indicators of poor financial decision making.

1.6 **Consequences.** For an individual to be classified in the target market, the consequences of a financial decision should either be proportionately significant (for example, make a big difference to their income, assets or liabilities or result in immediate hardship) and/or irreversible. A perspective which takes account of income, expenditure and assets is perhaps best suited to capture the significance of the consequences of poor financial decision making. The consequences of poor financial decisions might be considered significant where:

- Those making decisions, irrespective of their level of income, who do not have any savings, investments, insurance or other sources of income on which to fall back in acute or chronic circumstances (e.g. long term illness, significant increases in interest rates and price inflation, increases in unemployment levels, a collapse in the stock market);
- Those making decisions which cannot easily be reversed and which could lead to a significant change in income or wealth which cannot be remedied (e.g. those purchasing an annuity or those seeking to release equity from their property in older age).

Section 5 contains a fuller list of examples of where the consequences of poor financial decisions can be significant.

1.7 **Vulnerability** is perhaps the hardest of the components to define. In relation to financial advice, the root causes of vulnerability can be:

- A lack of financial capability, which can result in an inability to make appropriate decisions to act (or not act) or to select appropriate products;

- A lack of personal confidence in approaching financial matters or in facing up to sales pressure (in many instances this may be related to financial capability but in others could be the consequence of a personality trait which financial capability does not override);
- Individuals finding themselves in circumstances which are highly stressful and likely to override levels of capability or confidence which would otherwise reduce vulnerability (e.g. death of a partner, loss of a job, needing long term care, birth of first child).

Section 5 includes a more complete list of indicators of vulnerability.

- 1.8 For an individual to be considered to be in the target market, they should meet all three requirements, i.e. be vulnerable, be in a position where the consequences are significant and/or irreversible and be prone to poor financial decision making. In order to estimate the size of the target market and to profile it a pragmatic approach to populating the theoretical model was needed.
- 1.9 A number of different approaches to modelling the market for GFA could have been taken and were considered:
- Some would have involved gradually eliminating certain groups from the total population with the resulting residual group analysed and profiled. However, this approach did not appear to be consistent with the desire for an inclusive and national approach.
  - Others could have involved decision trees that sought to isolate those with most elements of vulnerability. However, this approach when tried, whilst isolating the extremes of vulnerability, did not provide sufficient clarity between those with considerable indicators of vulnerability and those with none.
  - Based in part upon the responses to the Call for Evidence and the availability of the FSA's baseline survey, which describes the entire adult population, a decision was taken by the Thoresen Review team not to exclude any groups from the target market but rather to isolate different groups with potentially different needs. The approach taken to modelling involved building an additive score to identify multiple dimensions of "vulnerability to the consequences...". The score enabled the Thoresen team to identify different segments of the entire population and to form a view on the type of service and needs that each segment might respond to.
- 1.10 The scoring model was built using the research database developed for the FSA's baseline study of financial capability. Whilst not providing all of the components that might help to define the target market, it is the most comprehensive database of consumer financial behaviour, capability and attitudes available in the UK. Details of the model are contained in section 7 of this report.

1.11 The score was built by ascribing a score of 1 point to each individual represented in the FSA's sample (5,328 respondents) for each of the elements of vulnerability (collated into the three domains of poor financial decision making, consequences and vulnerable). The results were then weighted and grossed up to represent the UK population<sup>1</sup>. This enabled the approximate number of individuals with different levels of 'vulnerability' to be quantified. The table below summarises the elements that make up the score. Whilst no explicit weighting of the elements was undertaken, all elements included in the score were implicitly considered to be of equal importance.

The indicators chosen to identify "those most vulnerable to..." were selected following discussions with experts in the Personal Finance Research Centre, FSA, DWP, HMT and others, who helped refine the indicators and suggest alternatives. The selection required an element of judgement to be applied, but those used broadly represent the collective opinion on the most practical way of building the scoring model.

#### **Vulnerability**

Choosing Products – bottom quartile score of financial capability domain  
Staying Informed – bottom quartile score of financial capability domain  
Not IFA Prospects – not economically viable for advisers on income or wealth  
No Financial Products – no financial products (banking or savings)  
High IMD<sup>2</sup> Score – in top two deciles of IMD  
Poor Literacy – interviewer recorded respondent difficulty with reading

#### **Consequences**

Making ends meet – bottom quartile score in financial capability domain  
Less than 10% Income in Savings  
Less than 50% Income in Savings  
Less than 100% Income in Savings

#### **Poor financial decision making**

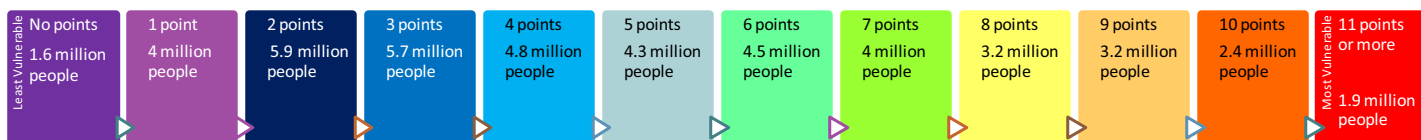
Planning Ahead – bottom quartile score in financial capability domain  
Keeping Track – bottom quartile score in financial capability domain  
No Savings  
Working and no Pension or other Savings  
Children and no Life Cover  
Working and no Income Protection  
Overindebted - 100% or more of household income in unsecured debt recorded

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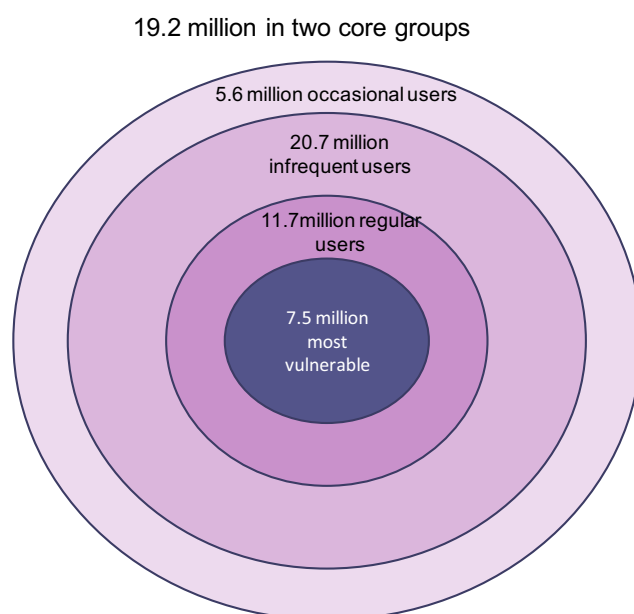
<sup>1</sup> Using the weighting and grossing up variables supplied by FSA as part of the Financial Capability database.

<sup>2</sup> Indices of Multiple Deprivation, developed originally for the Office of the Deputy Prime Minister by the Social Disadvantage Research Centre in 2004. The IMD contains seven domains of deprivation: income; employment; health; education, skills and training; barriers to housing and services; living environment and crime.

1.12 By building up a score based upon the three elements of poor financial decision making, consequences thereof and vulnerability (described below), we were able to develop a spectrum of vulnerability that covers the whole of the UK population. From this we were able to isolate distinct groups for the delivery of GFA. Those in the far left-hand box (purple) are those with no elements of 'vulnerability', those in the far right (red) having the highest scores for 'vulnerability'.



1.13 When these twelve groups were profiled, it became clear that certain groups were similar in profile based on the causes of their 'vulnerability' (used here as shorthand for vulnerable, consequences and poor financial decision making). The groupings were not based on any statistical test but rather by reviewing the characteristics that make up their vulnerability score of the segments. The twelve segments have been grouped into four sub-groups, the central two of which contain the 19.2 million individuals who will form the key target groups for GFA, although it is recognised that included in this number are more than 3 million who may require, in the first instance, crisis intervention which falls outside of the remit of GFA. However, even this 3 million will not be turned away from the service, rather they will be directed to other agencies for debt management advice but may return to GFA either once their debt issues have been resolved or for other financial matters in the meantime (such as how to claim on their car insurance or how to find the best bank account for them).



1.14 The table below summarises the characteristics of vulnerability that bind each group, their expected needs from a GFA service and their demographic profile.

	Most vulnerable	Regular users	Infrequent users	Occasional users
Number of UK adults	7.5 million	11.7 million	20.7 million	5.6 million
Vulnerability	Multiple drivers of vulnerability: lack of access to commercial advisers, poor planning ahead, very limited savings or protection, limited financial portfolio and therefore limited knowledge of products, difficulty making ends meet and over-indebtedness (almost half). Many who are working have no pension. One in five may have literacy problems and 50% live in areas with high levels of multiple deprivation.	Vulnerability driven primarily by not being adviser prospects (majority), not being experienced at choosing products, some lack of savings, over-indebtedness (one in three). Showing signs of not being good at planning ahead and more than one in three with low scores on making ends meet. However, generally good at keeping track of money and many have some savings. One in ten may have literacy problems and >20% in areas with high levels of multiple deprivation.	Vulnerability driven primarily by not being adviser prospects (about two-thirds), not being experienced at choosing products or not good at keeping track of their money. Results in some over-indebtedness (around 1/3 <sup>rd</sup> ) and some lack of savings but generally good at planning ahead and staying informed. At upper end of scores, some struggling to make ends meet. Small number have literacy problems and one in ten in areas with high levels of multiple deprivation.	Some lack of access to commercial advice and poor at keeping track of money but otherwise no significant signs of vulnerability. Consequences of subsequent poor financial decision making unlikely to be significant for many (due to relatively high level of saving). Not at risk due to poor financial capability. No strong evidence of poor decision making.
Expected needs of GFA	Approximately half of this group might be expected to require either crisis intervention or support from other agencies. Others expected to need help with pre-crisis managing debt and budgeting. Personal Account prospects.	Some crisis intervention but majority could gain help with interpreting products, managing debt, increasing savings and budgeting. Personal Account prospects.	Many of this group are capable of finding information and advice without the support of GFA. They do, however, need help in understanding products and some money management techniques. Focus on jargon busting.	Majority will not require targeted support from GFA. However, this group includes many approaching or in retirement. Some support may be required in complex areas such as annuity purchase and equity release.
Demographics	Average incomes 60% of national average. All household incomes <£40,000 after tax. Approx 20% have no financial products (yet). On average hold one banking or saving product types. 30% has no bank account. Much younger than average, 70% aged under 45, 8% aged over 65. Slightly less likely than average to be working but more likely to be working part time. Slightly more female than male. Many more singles, separated and divorced than average. Only 25% married. Approx 25% single parents. Higher than average in Wales, Scotland, NI and in England in NW, NE and London. Slightly higher than average non-white. Lower education levels than average (20% A levels and above). <20% own their own home, half in social housing.	On average incomes slightly lower than national average – almost half with incomes between £10k and £30k after tax. Approx 5% with higher incomes. On average hold two banking / savings product types. Younger than average, 62% aged under 45, 16% aged over 65. Slightly more likely than average to be working full time. Slightly more female than male. More singles and divorced than average but >40% married. >15% single parents. Higher than average in NW, NE, W. Midlands and London. Slightly higher than average non-white. Slightly lower education levels than average. <50% own their own home, more social housing and more private renting than average.	Incomes higher than national average – fewer very low incomes than least vulnerable but also fewer very high incomes. On average hold four banking / savings product types. Age more typical of population. 45% aged under 45, 22% aged over 65. Slightly more likely than average to be working full time. Slightly more female than male. Slightly more likely to be married than average and with dependent children. Broadly geographical spread. Ethnic mix closer to population average. Slightly higher education levels than average. Three quarters own their own home, less social housing than average.	Typically higher income and/or wealth (although one in three have household income <£10,000pa after tax). On average hold seven banking / savings product types. Older (60% over 55). Half have retired, most of remainder in full time work. More male than female. Predominantly married (but most no longer have dependent children). More likely than average to live in SE, SW, East of England or Yorkshire. Less likely than average to live in London, NE or Wales. Few non-white individuals 60% A Level or above. > 90% own their own home (>30% no mortgage).

1.15 The hypotheses of the expected needs of the target market for the service have been formed by examining the detailed profile of each group (see sections 8 and 9). The pilots (described in more detail in the Thoresen Interim Report) and market research will help to further identify the issues that consumers bring to GFA and the channels through which they engage with it.

1.16 Whilst the analysis undertaken on the target market for GFA tells us a lot about those most vulnerable to the consequences of poor financial decision making, and much of the hypotheses about usage of the GFA service are supported by market research conducted for the Thoresen Review, much more needs to be discovered about the best ways to engage the target groups. Further analysis will be available from the research and analysis of management information being undertaken in conjunction with the Thoresen pilots and additional data will be sought from other research and data agencies to enrich the profile for the final report.

## 2 Introduction

- 2.1 In January 2007, HM Treasury published a paper describing the Government's long-term approach to financial capability. The consultation document set out:
- The need to provide individuals with the tools they need to make more informed and considered financial decisions;
  - Progress made to date by the Government, the Financial Services Authority (FSA), industry and the voluntary sector in the delivery of financial education, information and advice to enhance financial capability;
  - The inefficiencies inherent in today's financial services markets which have led to many consumers who may need advice not seeking or receiving any and some others receiving poor quality advice;
  - The expected benefits to individuals and to the financial services market in having more informed and engaged consumers;
  - The intention of the Government to "contribute to a substantial increase in measured levels of financial capability across the population in the next ten to twenty years";
  - The aspiration to ensure that:
    - Consumers have access to high quality generic advice that would be designed to engage them with their financial affairs and to make effective decisions;
    - All children gain access to a planned and coherent programme of personal finance education;
    - A range of government programmes designed to focus on helping those most vulnerable to the consequences of poor financial decisions.
- 2.2 As part of the Government's approach, the Economic Secretary to the Treasury invited Otto Thoresen to research and design a national approach to Generic Financial Advice (GFA). Included in the terms of reference was a requirement to recommend "the most effective way of serving different groups of consumers, ensuring effective targeting of ***those most vulnerable to the consequences of poor financial decision-making***". In the context of GFA, financial decision making includes both the shorter term issues of money management and household budgeting as well as longer term decisions about membership of pension schemes or family protection.
- 2.3 It is intended that all adults will have access to the service, but that both the design and the marketing of the service should be targeted at those who are most in need of being engaged in financial decision making. This report seeks to provide a description and quantification of those segments of the population make up the most vulnerable.
- 2.4 This report has been developed following analysis of the responses to the Thoresen Review's Call for Evidence, discussions with key stakeholders (Financial Services Consumer Panel, Which?, Resolution Foundation, FSA, Department for Work and Pensions, Citizens Advice, Personal Finance Research Centre, trade bodies and some commercial players) and an analysis of existing research, in particular the FSA baseline data on financial capability.

### 3 Responses to the Call for Evidence

3.1 In March 2007 the Otto Thoresen issued a Call for Evidence, requesting input from a range of stakeholders on a number of aspects of the design of a GFA service. This included questions on the scope and nature of the target market, specifically:

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

3.2 Many of the respondents to the Call for Evidence responded to these questions and a few provided supporting research or evidence. The majority did not define with any precision the parameters for defining the target market. Many pointed to existing research conducted by the FSA, Resolution Foundation and others as the core source of data.

3.3 A clear majority view emerged that the service should be inclusive and that no specific groups should be excluded or explicitly steered away (although implicit in most responses was the point that the service would be focused on adults rather than children). It was felt by many that almost all adults could benefit in some way from GFA at some point in their lives:

*“We do not find that consumers prone to making poor financial decisions are restricted to any social, demographic or economic group”<sup>3</sup>*

3.4 A small minority of views emerged that suggested that certain groups could be steered away from the service (through marketing), swiftly cross-referred to other agencies (through a triage service) or should not form the primary target groups, although the practicalities of implementing any means testing or filtering were felt to add too much complexity to be of value. Groups who could be excluded through marketing or triage included:

- Those who are dependent upon state benefits, on the grounds that they already have access to a number of advice sources (e.g. Citizens Advice). However, a larger number of respondents argued for this group being included in the target market on the grounds of social exclusion and that they are just as likely to require support in managing money and avoiding excessive debt:

*“Do not exclude those on benefits – some can benefit from help and may have bought inappropriate products or may lack insurance or need help with [Child Trust Fund] CTF”<sup>4</sup>.*

- Those whose needs are complex and best suited to specialist advisers operating in the commercial or third sectors;

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<sup>3</sup> NFU Mutual response to Thoresen Review Call for Evidence, April 2007.

<sup>4</sup> Citizens Advice response to Thoresen Review Call for Evidence, April 2007.

- Those with high levels of financial capability, on the grounds that they are better able to help themselves;
- High net worth individuals (although this is not defined);
- Those whose income or wealth profile makes them economically viable for existing commercial advice to serve or those who are currently accessing regulated advice;
 

*“It would seem reasonable to exclude higher income households, on the grounds that those that can pay, should pay.”*<sup>5</sup>

*“Those earning over £30,000 are already well served by financial advice community”*<sup>6</sup>.

Some commentators, however, commented that the service should also be aimed at those who do use commercial services in helping them get best value out of the commercial sector.

### 3.5 Thoughts on the segments of the population who should make up the target market included:

- Those who make up the target market defined by the Resolution Foundation’s work on generic advice (see section 4 below), but with some concerned that this might exclude some individuals on state benefits and others concerned that the upper threshold of median earnings might be too low and exclude significant numbers who are not economic for commercial providers to serve or are otherwise vulnerable;
- Those on low or modest incomes, although few commentators defined this in any detail. This is a very similar group to that defined by the Resolution Foundation;
 

*“We believe that new services should be targeted at those most vulnerable to the consequences of poor financial decision making in the lower and middle income groups. A narrow target market would have practical benefits in terms of designing and piloting the new service and lessons learned could inform later Government consideration for broadening the service.”*<sup>7</sup>

Some commentators pointed to the low levels of correlation between financial capability and income as a reason not to confine the target group to those on low incomes. Others suggested that focusing the service primarily on low income groups would hamper the development of a plausible business case for the commercial sector to support the service;

- Those who have difficulty accessing advice, as set out in the Association of British Insurers’ (ABI) Advice Gap research (see section 4 below for further details);
- Those currently showing evidence of poor financial decisions (e.g. not saving, over-indebted, not making the most of their savings);
- Those who have low levels of financial capability as measured by the Financial Services Authority in its baseline study;

<sup>5</sup> Money Advice Trust, Response to the Thoresen Review Call for Evidence, April 2007

<sup>6</sup> Chartered Insurance Institute response to the Thoresen Review Call for Evidence, April 2007

<sup>7</sup> British Bankers Association response to the Thoresen Review’s Call for Evidence, 27<sup>th</sup> April 2007

*“The service should aim to serve those most in need first, i.e. people lacking in financial capability in terms of awareness, knowledge and willingness to manage their financial affairs.”<sup>8</sup>*

- Those who do not get access to existing advice either through formal financial advice networks (e.g. banks, Independent Financial Advisers (IFAs), direct salesforces) OR through Government or third sector advice networks (e.g. DirectGov, Citizens Advice Bureaux or Money Advice Trust);
- Those who currently do not seek advice but could afford to, on the grounds that GFA might encourage these individuals to engage with some form of financial advice;
- Those who may be auto-enrolled into Personal Accounts (estimated by the Government to be around 7 million<sup>9</sup>);
- Those who find themselves in positions of stress related to financial decisions, either because the decision itself is significant (e.g. loss of job, death of a partner, separation of assets on divorce, equity release or funding long-term care) or because they have not experienced such a decision before (e.g. the purchase of an annuity at retirement, taking out a first mortgage);

*“Decisions about long term care are often made at a time of particular vulnerability when people are confronted by a complex care system and when large amounts of their savings are required.”<sup>10</sup>*

3.6 Some respondents were concerned to ensure that certain groups were explicitly not excluded from the design and delivery of GFA, in particular:

- Older consumers with modest amounts of private resource who are living with a strong sense of financial strain;
- Families deciding where to place their Child Trust Fund or parents looking to save for their children;
- Black and Minority Ethnic groups;
- The socially excluded who suffer from multiple deprivation;
- Those with financial needs that are influenced by specific religious requirements (e.g. Sharia Law);
- Those without access to the internet or phone;
- Those with low levels of literacy or numeracy;
- Those unable to speak English;
- Differing needs of women and men, particularly in relation to pension provision;
- Single parents and divorcees.

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<sup>8</sup> Investment Management Association response to the Thoresen Review Call for Evidence, 27<sup>th</sup> April 2007.

<sup>9</sup> *Personal Accounts: A new way to save*, DWP December 2006.

<sup>10</sup> CCC response to the Thoresen Review Call for Evidence, April 2007.

3.7 More than one respondent suggested that the targeting of the service could follow the traditional lifestage approach to finance, thus aligning the service to the most likely needs of consumers at different lifestages:

- Pre-work adults;
- Young new workers;
- Young families;
- Older families;
- Eve of retirement;
- Immediately post retirement;
- Advanced elderly.

Whilst lifestages have not been used in this research to shape the definition of the target market, certain lifestages do dominate the core groups that have been identified and lifestage development is being used to identify potential advice protocols for use in the Thoresen GFA pilots.

## 4 Existing Research

4.1 The following section summarises some of the existing research that relates to the target market for GFA. All have been considered when building the model to define the target market in this piece of work, but the FSA's baseline survey of financial capability has been the most extensively used database.

4.2 During 2005-2006, the Personal Finance Research Centre at the University of Bristol developed for the FSA a baseline study of financial capability among UK adults. The quantitative study followed a detailed programme of desk research, qualitative research and cognitive testing of the questionnaire used in the quantitative phase. The quantitative survey of 5,328 consumers conducted in 2005 was used to derive five domain scores which measure relative financial capability. The scores were derived using factor analysis and the domains are:

- Planning Ahead – a measure that indicates people's willingness and ability to deal with expected and unexpected financial events (including retirement). The results show mixed results, with some of the population scoring well whilst others are at the other end of the spectrum.
- Staying Informed – this domain measures an individual's willingness and ability to keep abreast of changes in the economy, new financial products and changes to existing ones, and knowing where to get help and advice. A significant proportion of the population attracted a low score against this domain.
- Choosing Products – a measure to assess an individual's knowledge about financial products, their attitudes to risk, and their behaviour and confidence in selecting appropriate financial products. One-quarter of the adult population were not attributed a score at all due to their lack of engagement with buying financial products. The results for the remainder showed a significant number of individuals with low scores in this domain.
- Making Ends Meet and Keeping Track – two measures of managing money. Making Ends Meet is a score which indicates how well people are able to live within their means. Keeping Track measures how well people keep track of their day-to-day finances. The results indicated that whilst many people score well on Making Ends Meet, few people do very well on Keeping Track.

Cluster analysis combining the results of the five scores indicated that those with high levels of financial capability tend to be older and with higher income. Those at the other extreme, with several low scores, tend to be younger with lower incomes.

The findings of the FSA baseline study have been used extensively in this model since they already bring together a number of complex and interacting measures of financial behaviour.

4.3 The Resolution Foundation's work on generic advice identified a target group of around 15 million adults on below median earnings and for whom state benefits did not make up more than 20% of household earnings. The rationale for these individuals becoming the core target group for generic advice was based on:

- The difficulty that this group has in accessing advice from the private sector;
- The relatively low levels of financial capability found among this group;
- The lack of a cushion of wealth and assets to fall back on should they make poor financial decisions.

The Resolution Foundation has published a number of reports detailing the research conducted into the need for GFA, modelling the impact of GFA on the individual and society as a whole and an early model of the potential benefits and costs to the financial services industry.

- 4.4 The Social Exclusion Taskforce (and its predecessor the Social Exclusion Unit) has produced extensive research that has a bearing on identifying ‘vulnerable’ consumers. It operates from the Cabinet Office with a remit to co-ordinate the Government’s drive against social exclusion. The taskforce is presently conducting quantitative research on ‘social exclusion across the life course’, experienced by people of all age groups: children, young people, those of working age and older people. This research aims to provide further insight into factors such as who is affected by social exclusion, how long these problems are faced, and other key drivers. The research builds on an earlier research report commissioned by the Taskforce, The Multi-Dimensional Analysis of Social Exclusion Taskforce and on the original work creating an Index of Multiple Deprivation (IMD). Some of the earlier work on social exclusion, namely the IMD has been used as one of the potential indicators of ‘vulnerability’ in this piece of work.
- 4.5 The Financial Inclusion Taskforce, chaired by Brian Pomeroy, was formally established in 2005 with a remit to monitor progress against the Government strategy to tackle financial exclusion, as set out in its paper “Promoting Financial Inclusion”. The report set out a range of measures - in three priority areas – access to banking, access to affordable credit, and access to free face-to-face money advice. Part of the remit of the taskforce is to identify areas of best practice, and any gaps, in the provision of free face-to-face money advice. The views of the taskforce have been taken into account in preparing this paper.
- 4.6 In its first report, published in October 2004, the Pensions Commission<sup>11</sup> concluded that there were a number of barriers to an efficient pensions market arising from consumers’ economically irrational behaviour in the face of a complex UK pensions market, a lack of trust in the two key sources of advice: government and the financial services sector, and the high costs associated with delivering individual advice in such a complex market. These observations led in time to recommendations made in the commission’s second report that the UK should adopt a system of auto-enrolment of individuals who are not in an employer’s pension scheme into a National Pension Savings Scheme (NPSS). It was recommended that NPSS should be set up with a price cap which would deliver a level of value to members similar to that enjoyed by members of today’s large workplace pension schemes. It was acknowledged that the proposed level of cap would not support the costs of the current advice system in the UK but that NPSS would establish a clear need for generic advice to help people with enrolment and asset allocation decisions.

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<sup>11</sup> Pensions: Challenges and Choices, The first report of the Pensions Commission, October 2004.

The recommendations of the Pensions Commission led in turn to the DWP responding with White Paper proposals for the establishment of Personal Accounts (a derivative of NPSS) and to estimate that 7 million individuals might qualify for auto-enrolment. Demand for GFA may be triggered by this event, which is expected to take place in 2012. One of the indicators of demand used in this research is the potential for individuals to be auto-enrolled into Personal Accounts.

- 4.7 The Association of British Insurers (ABI) has through a number of publications, set out the difficulties faced by the financial services industry in delivering regulated advice to the mass market. In its paper “Strategies for Tackling the Savings Gap – The Role of the Saver Agent”, the ABI identified an ‘exclusion zone’ for regulated advice of 11 million households who cannot be profitably served by the financial services sector and who do not therefore have access to regulated advice. In this report we have used personal economic circumstances to identify whether individuals might be economically viable for a commercial adviser to serve.
- 4.8 The Call for Evidence revealed other significant research projects, which have been used to inform other aspects of the Thoresen Review team’s work on GFA.

## 5 “Those most vulnerable to...”

- 5.1 The expression “those most vulnerable to the consequences of poor financial decision-making” can be broken down into three component parts: vulnerability, consequences and poor financial decision making. This section describes a descriptive and theoretical model for identifying “those most vulnerable...”. The sections that follow seek to translate this theoretical model into a practical application.
- 5.2 In theory, any individual could be classified as vulnerable to the consequences of poor financial decision making, not just those with few assets or limited income. The history of financial services in the UK and elsewhere is littered with cases of individuals from all backgrounds who found themselves suffering from financial difficulty as a consequence of poor financial decisions. However, it is important to recognise that market failures and fraudulent advice or business models are not part of poor financial decision making.
- 5.3 **Poor financial decision-making** is perhaps the easiest of the three components to describe and from which consequences flow. It is for this reason we have sought to tackle its definition first.
- 5.4 Although there may be an accepted view of what constitutes a poor financial decision, some value judgements are still necessary, particularly in respect of risk and saving for retirement. For example, is it a poor financial decision not to save for retirement, when to do so could result in a potential loss of state benefits? Is it appropriate for an individual who is extremely risk averse to risk investing in the stock market? Is it appropriate to save entirely in cash without an understanding of the inflation risk that this often presents? This paper does not explicitly address these questions, but rather, accepts at face value the most commonly held views of poor financial decision making, as described below.
- 5.5 Poor financial decisions may stem either from action or inaction. Individuals may either take actions that are inappropriate or, as may often be the case, fail to make a positive financial decision. Examples include:
- Failing to protect the financial security of the family through savings and/or insurance;
  - Failing to save for one’s future, in particular for retirement;
  - Taking too little or too much risk when saving or investing;
  - Investing in a single asset class or a single asset (e.g. those who believe themselves to be saving for retirement through investing in their own home);
  - Excessive borrowing;
  - Buying a product with high charges or, in some cases, buying the cheapest product;
  - Failing to achieve the best income from an annuity purchase by failing to consider an open market option;
  - Failing to get the best interest on savings or paying an unnecessarily high interest rate on credit;

- Buying an inappropriate product – one that does not do what is expected of it;
  - Ignoring one’s financial position when things get tough;
  - Not keeping track of one’s finances.
- 5.6 It is important to recognise that poor financial decision making is not merely the result of poor financial capability or lack of access to information and advice. Some recent work on economic psychology (notably by Paul Webley and colleagues<sup>12</sup>) describes the impact of psychology on economic behaviour which can result in sub-optimal behaviour. However, very little quantitative work has been carried out in a form which enables us to use economic psychology to size and profile the target market for GFA. Further work will be required to understand the importance of psychology in engaging with GFA users.
- 5.7 **Consequences:** for an individual to be classified as “most vulnerable to...”, the consequences of a financial decision should either be proportionately significant (e.g. make a big difference to an individual’s income, assets or liabilities or result in immediate hardship) and/or irreversible. Not all consequences are financial in nature. Making poor financial decisions can also lead to personal stress or family breakdown.
- 5.8 In the main, it is individuals with fewest resources behind them who are most likely to suffer significant consequences or whose family is most likely to suffer the consequences. Those for whom the consequences might be most significant would be those whose financial position is such that the loss of money through poor financial decisions would lead to financial difficulty in their everyday life.
- 5.9 Previous studies of the subject of GFA, in particular the work of the Resolution Foundation, have used income to take account of the consequences of poor decisions. However, an individual’s income at any particular point in time may not adequately describe the instability of their financial position. An individual with a low household income and low household expenses would not be in the same position as an individual with a moderate household income and relatively high household expenditure. Individuals who have low incomes but significant assets, in particular financial assets, will be less insecure than those with low incomes and no financial assets. Similarly those with moderate incomes who struggle to make ends meet and have no financial assets may be especially vulnerable to a poor financial decision.
- 5.10 A perspective which takes account of income, expenditure and assets is perhaps best able to capture the significance of the consequences of poor financial decision making. The consequences of poor financial decisions might be considered significant where:
- Individuals struggle to make ends meet. For these individuals any change in financial circumstances (e.g. loss of a job or increase in interest rates) could lead to financial hardship. Whether an individual is able to ‘make ends meet’ may not be driven by level of income, but those individuals with lower incomes may be less able to adjust their expenditure in the event of expected or unexpected changes to their finances.

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<sup>12</sup> The Economic Psychology of Everyday Life, Paul Webley, Carole B Burgoyne, Stephen E G Lea and Brian M Young.

- Those individuals, whether or not they are able to make ends meet on a day-to-day basis, do not have any savings, investments, insurance (or other sources of income) on which to fall back in acute or chronic circumstances (e.g. long-term illness, significant increases in interest rates and price inflation, increases in unemployment levels, a collapse in stock market or house prices).
- The decisions being made cannot easily be reversed and could lead to a significant change in income or wealth which cannot be remedied (e.g. those purchasing an annuity or those seeking to release equity from their property in older age).

5.11 **Vulnerability** is perhaps the hardest of the components to define. The dictionary definitions of vulnerability describe a person who is susceptible, weak, defenceless, helpless, at risk or in danger. In relation to financial advice, the root causes of vulnerability can be:

- A lack of financial capability, which can result in an inability to make appropriate decisions to act (or not act) or to select appropriate products;
- A lack of personal confidence in approaching financial matters or in facing up to sales pressure (in many instances this may be related to financial capability but in others could be the consequence of a personality trait which financial capability does not override);
- An inability to access appropriate products (e.g. affordable credit, bank accounts), information (e.g. not having access to the internet) or advice (e.g. because the supply of advice is limited or expensive);
- A dependency upon inappropriate advice or information sources (e.g. unregulated advisers, illegal lenders);
- Low levels of literacy and numeracy (often reflected in poor financial capability) or a physical or mental disability that affects the individual's ability to access or assimilate information;
- An inability to access appropriate mechanisms for complaints and for remedy of a detriment (e.g. not having the confidence or ability to access the Financial Ombudsman Service or Citizens Advice);
- Individuals finding themselves in circumstances which are highly stressful and likely to override levels of capability or confidence which would otherwise reduce vulnerability (e.g. death of a partner, loss of a job, needing long-term care, birth of first child)

5.12 For an individual to be considered to be as "most vulnerable to...", they should meet all three requirements, i.e. be vulnerable, be in a position where the consequences are significant and/or irreversible and exhibit poor financial decision making.

- An individual who is vulnerable but for whom the consequences are unlikely to be severe is unlikely to be part of the target market, but may be part of an important secondary segment.
- Similarly, individuals who make poor financial decisions knowingly or through lack of application of their financial capability may not form part of the target market.

## 6 Building the model

- 6.1 Having described a theoretical model of “those most vulnerable...”, a way of building a quantifiable model that would allow the target market to be sized and profiled was sought.
- 6.2 A number of different approaches to modelling the market for GFA could have been taken and were considered:
- Some would have involved gradually eliminating certain groups from the total population with the resulting residual group analysed and profiled. However, this approach did not appear to be consistent with the desire for an inclusive and national approach.
  - Others could have involved decision trees that sought to isolate those with most elements of vulnerability. However, this approach, when tried, whilst isolating the extremes of vulnerability, did not provide any clear shades of grey in between those with considerable indicators of vulnerability and those with none.
  - Based in part upon the responses to the Call for Evidence and the availability of the FSA’s baseline survey, which describes the entire adult population, a decision was taken by the Thoresen Review team not to exclude any groups from the target market but rather to isolate different groups with potentially different needs. The approach taken to modelling involved building an additive score to identify multiple dimensions of “vulnerability to the consequences...”. The score enabled the Thoresen team to identify different segments of the entire population and to form an initial view on the type of service and needs that each segment might respond to.
- 6.3 The model used to identify “those most vulnerable...” has been developed using principles similar to those used in the development of the financial capability domains and in the development of the IMD used in the definition of social exclusion. The findings have been reviewed by a number of individuals with experience of research or analysis of this subject. Their comments and suggestions have, where appropriate or possible, been incorporated into the model and findings described below. Given more time and resources, further statistical analysis and profiling would be possible. This model should be considered as a starting point for taking the debate about the target market further.
- 6.4 No single data source enables all of the characteristics of the target market suggested above to be identified and analysed. However, the FSA’s baseline study on financial capability provides a good source of data on many of the variables that might be needed to populate the segmentation model described in this report. The data has been weighted and grossed up to represent the UK adult population aged 18 and over.<sup>13</sup>

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<sup>13</sup> Using the weighting and grossing up variable supplied by the FSA as part of the Baseline database. The grossing up creates a population of approximately 45 million UK adults. The accuracy of the grossing up and any error rate inherent in it have not been investigated in this work.

6.5 The scoring model described below has been built using the three ‘domains’ described in section 5 which make up “those most vulnerable to the consequences of poor financial decision-making”. The score is additive, with 1 point ascribed to an individual where they exhibit the characteristics listed below. Where they do not exhibit this characteristic their score is zero. Individuals with the highest score have the most indicators of being vulnerable to the consequences of poor financial decision making. Those with a score of zero have none of the attributes of ‘vulnerability’.

#### **Vulnerability**

Choosing Products – bottom quartile score of financial capability domain  
Staying Informed – bottom quartile score of financial capability domain  
Not IFA Prospects – not economically viable for advisers on income or wealth  
No Financial Products – no financial products (banking or savings)  
High IMD<sup>14</sup> Score – in top two deciles of IMD  
Poor Literacy – interviewer recorded respondent difficulty with reading

#### **Consequences**

Making Ends Meet – bottom quartile score in financial capability domain  
Less than 10% Income in Savings  
Less than 50% Income in Savings  
Less than 100% Income in Savings

#### **Poor financial decision making**

Planning Ahead – bottom quartile score in financial capability domain  
Keeping Track – bottom quartile score in financial capability domain  
No Savings  
Working and no Pension or other Savings  
Children and no Life Cover  
Working and no Income Protection  
Overindebted - 100% or more of household income in unsecured debt recorded

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<sup>14</sup> Index of Multiple Deprivation, developed originally for the Office of Deputy Prime Minister by the Social Disadvantage Research Centre in 2004. The IMD contains seven domains of deprivation: income; employment; health; education, skills and training; barriers to housing and services; living environment and crime.

- 6.6 The model does not incorporate any explicit weighting. All elements of the score are given equal importance, e.g. an individual who does not have the income or assets necessary to qualify for financial advice is attributed the same score as someone who is not saving for their retirement or someone who does not have a bank account. In time, consideration might be given to attributing more explicit weightings to the scores.
- 6.7 Whilst the FSA's baseline study includes many variables that can be used in the definition of the target group, it does not fully describe all of the characteristics of individuals and households that might ideally be included. Notable exclusions include:
- Access to or ability to use the internet or phone, although there is some data on use of the internet for financial matters;
  - Physical or mental disability;
  - Use of informal or inappropriate advisers.
  - Those taking of too little or too much risk across their investment portfolios;
  - Those who choose high-charge or inappropriate products;
  - Those who do not seek out the best interest or annuity rates.
- 6.8 The number of those defined as "most vulnerable to the consequences of poor financial decision-making" may therefore be higher. However, it is also possible that many of these individuals will be included by default due to the use of other variables that correlate highly with the missing variables.

## 7 Target Market Segmentation

7.1 The model outlined in the previous section and described in more detail below is deterministic and attributes a score to each individual in the FSA's baseline survey. The survey findings are then weighted and grossed up to represent the whole UK population.

7.2 **Poor financial decision making.** In looking at the incidence of poor financial decision making, much of the work has already been undertaken in the FSA's baseline study. Individuals are given 1 point for each of the following:

- Having a low score on the financial capability domain Planning Ahead;
- Being aged 25 or above<sup>15</sup> and earning more than £5,000 p.a.<sup>16</sup> (after tax and national insurance) and have no pension provision (current or previous) – i.e. those who will be auto-enrolled into Personal Accounts – and no significant other savings (of less than 10 times earnings) and no investment property. Of course, this does not in any way measure whether pension provision is adequate – the value of retirement provision is not included in the baseline study.
- Having no savings at all to fall back on;
- Being over-indebted, in this instance measured by unsecured debt exceeding 100% of their annual household income.<sup>17</sup> This measure was chosen because 100% of earnings in unsecured debt was deemed to represent a significant proportion of income, regardless of how high that income is;
- Working but having no income protection (either through insurance, employer cover or half a year's income in saving);
- Having children but no life cover (whether or not they are working);
- Having a low score on the financial capability domain Keeping Track;

The total score for poor financial decision making is the sum of these elements. So an individual who has no savings and scores poorly on Planning Ahead will score two points if they have do not have any of the other elements described above. The maximum an individual can score is 7 points if they display all of the characteristics.

7.3 Some aspects of poor decision making are not evident in the baseline survey and cannot be incorporated, thus possibly reducing the number with a higher score. These include:

- Taking too little or too much risk across one's portfolio (although it would be possible with considerably more work to identify those with a high proportion of savings in cash, property or equities and taking a view on whether this was excessive);

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<sup>15</sup> 25 has been chosen as it represents one of the age breaks in the baseline study for those who did not give their actual age.

<sup>16</sup> In its White Paper, Personal Accounts: A new way to save, the DWP recommended that anyone with annual earnings of around £5,000 or above should be auto-enrolled into Personal Accounts. The DWP also estimate that 7 million individuals are currently undersaving for retirement.

<sup>17</sup> In its 2006 annual report on over-indebtedness the DTI states that there is no universally accepted definition of over-indebtedness.

- Choosing high charge or inappropriate products.
- 7.4 The Planning Ahead domain measures the extent to which individuals plan ahead for future changes in income or expenditure (e.g. retirement) and is calculated using the following variables in the baseline survey:
- Whether respondents had made provision for a fall in income;
  - The length of time that individuals could make ends meet if they did experience a large and unexpected drop in income;
  - Whether individuals had any insurance to protect their income, payments or possessions;
  - Whether individuals had made provision for unexpected major expenditure or a future anticipated expense;
  - Whether individuals had no planned pension provision;
  - A range of attitudes to future planning (e.g. “I tend to live for today and let tomorrow take care of itself”).

11.3 million individuals score in the bottom quartile for Planning Ahead.

- 7.5 Those who aged 25 and above who are earning more than £5,000 p.a. and have
- no current pension; and
  - no significant other savings (less than 10 times their earnings); and
  - no investment property.

number just under 5 million.<sup>18</sup> Whilst for some this may not rightly be described as poor financial decision making, it indicates that currently they do not have any supplementary plans in place for retirement income. For some on low incomes and near retirement in particular, this may be a rational decision, however the model does not currently adjust for this.

- 7.6 Those who are working but have no protection against short-term or long-term loss of earnings through insurance (critical illness cover or income protection through their employer or an individual arrangement) OR savings (at least six months of household income in savings) number 5.1 million (although many of those excluded may only have short-term cover from their employer). 17.7 million (78%) of those who are working do have either insurance cover or six months’ worth of saving.
- 7.7 Those who have children but do not have any life cover, either through their employer or their own arrangements, number just over 2 million individuals. 13.1 million individuals with children (including 83% of single parents) do have some form of life cover.
- 7.8 Those who have unsecured borrowing of more than 100% of their household annual income (after tax and NI) number 14.3 million people.

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<sup>18</sup> In its White Paper, Personal Accounts: A new way to save, the DWP estimates that 7 million individuals are currently undersaving for retirement.

7.9 Those who have no savings number 11.1 million individuals.<sup>19</sup>

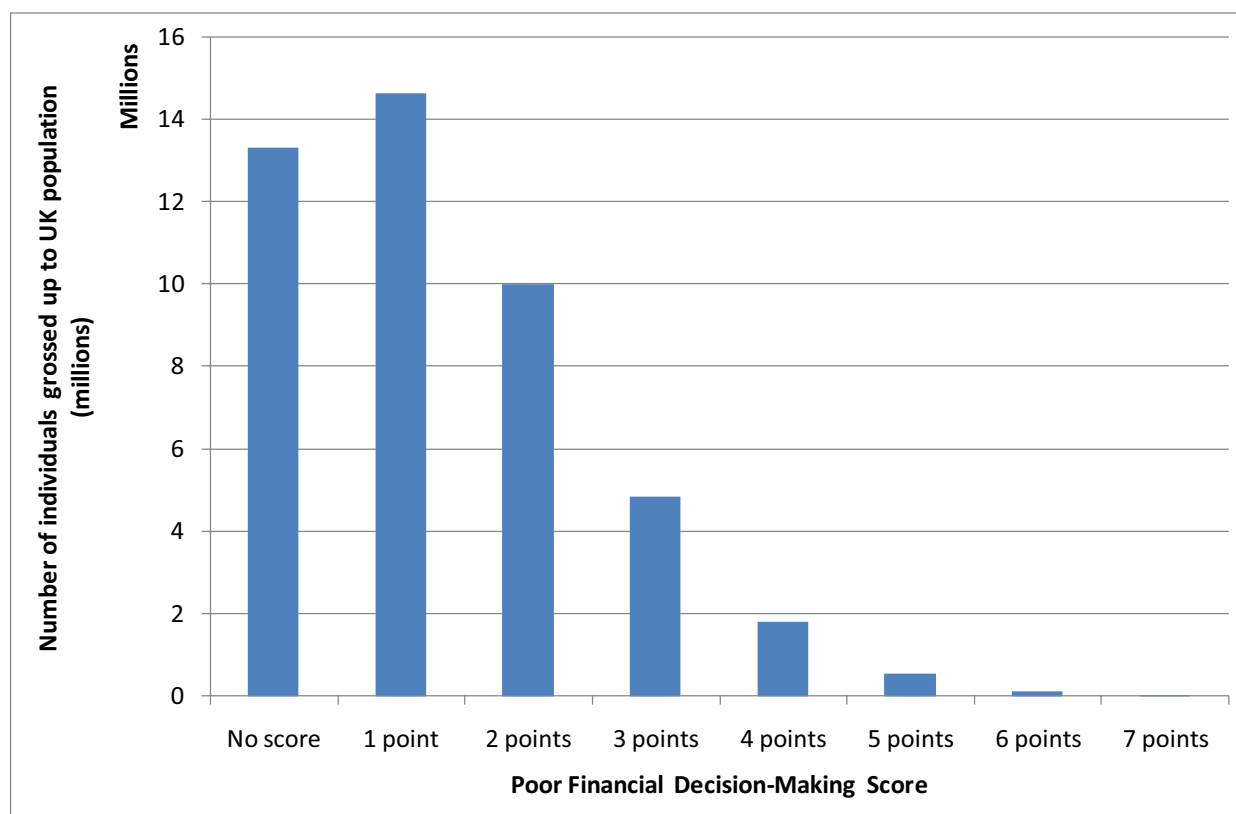
7.10 The Keeping Track domain measures the extent to which people control their day-to-day spending and keep track of their finances and is calculated using the following variables in the baseline survey:

- Whether people check entries on their bank and credit card statements;
- Whether people check their balances before making a withdrawal;
- Whether people plan for irregular or 'lumpy' expenditure;
- The extent to which people take responsibility for managing money;
- A series of questions capturing people's attitudes to managing their money.

11.3 million individuals score in the bottom quartile for Keeping Track.

7.11 When these elements are combined into a single score for each individual in the baseline survey and the results are weighted and grossed up to represent the adult population, almost one-third of the population exhibit no evidence of poor financial decision-making (the first bar in the chart below) with two-thirds showing some areas of weakness.

**Poor Financial Decision Making Scores**



<sup>19</sup> Data provided by HM Treasury from the Family Resources Survey indicates that 7.1 million households had no savings in 2005-06.

7.12 The largest group, over 14 million individuals, score 1 point – their score in the main caused by:

- Over-indebtedness - 34% of those with 1 point have unsecured debt of more than 100% of their annual household income. However, typically these individuals will score well on Planning Ahead and Keeping Track and will have some savings or insurance cover.
- Keeping Track – a further 30% of those with 1 point are poor at keeping track of their money but plan ahead well and either save or have insurance protection. They may well not keep track because they have no worries over their household budget.

7.13 Among those with a score of 2 or 3 points, poor planning ahead and not having income protection adds to the score for a significant number of individuals.

7.14 Those with seven points are weak on every element of the score – they are over-indebted, earn over £5,000 p.a. but do not have a pension, do not save, have a family but no life cover, have no form of income protection and are poor at keeping track of their money and planning ahead. They number approximately 36,000 people.

7.15 **Consequences.** The baseline study contains the following information that has been used to define consequences. Individuals are defined as facing significant consequences if:

- They have low scores on the financial capability domain of Making Ends Meet;
- They have no or insignificant savings or insurance protection. In this score we have attributed a score of 1 point for each of the following:
  - Where they have savings of less than 100% of their annual household income (after tax and NI);<sup>20</sup>
  - Where they have savings of less than 50% of their annual household income;
  - Where they have savings of less than 10% of their annual household income;

The effect of this element of scoring is that individuals with very low levels of saving attract a higher score than those with higher savings.

An individual can score 1 point for each of these elements and the total score for consequences is the sum of these scores. The maximum an individual can score is 4 points.

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<sup>20</sup> These three different levels of savings ratio were not selected with any specific rationale but rather to drive through some shades of grey in this part of the score. Those with a whole year's worth of income in savings are simply protected for longer than those with just 50%, who in turn have more protection than those with only 10% of their annual income in savings.

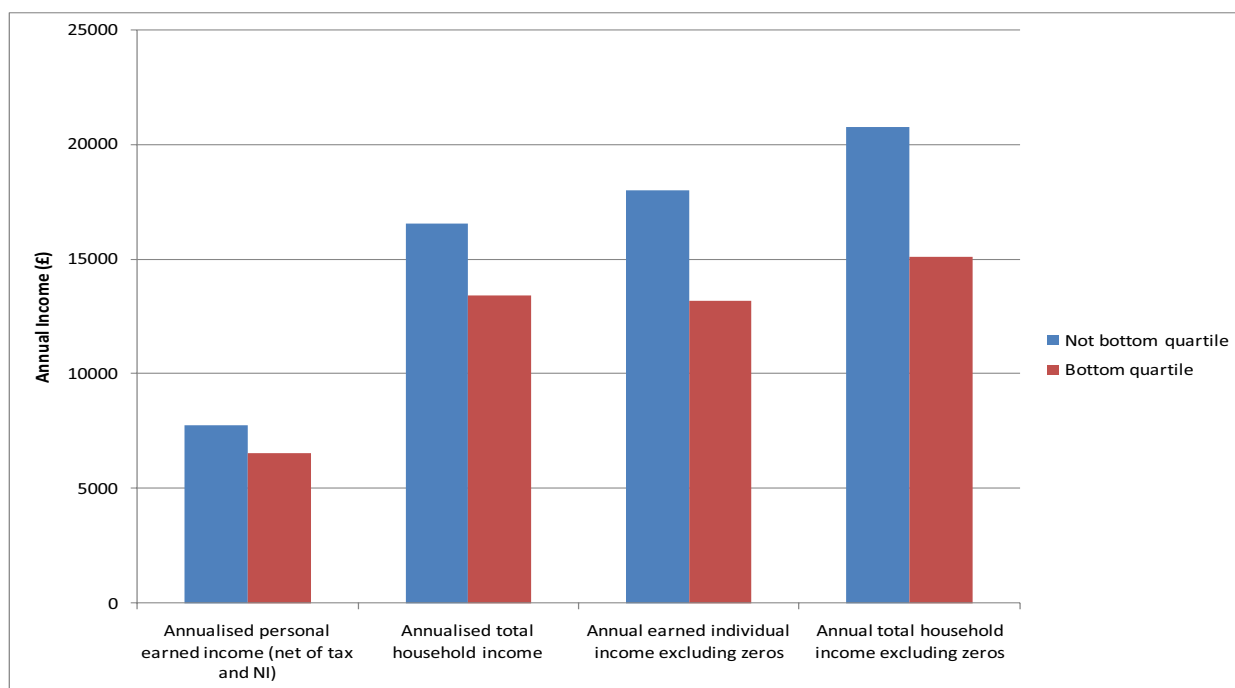
7.16 The survey does not identify those individuals who are facing decisions about purchasing an annuity at retirement, although it would be possible to include all of those approaching retirement on the grounds that in any event they may have some important financial decisions to make. Neither does the survey identify those facing decisions about long-term care although it would be possible to extend those included to all aged over 75. For the time being, neither of these important decision making points that could lead to very significant consequences have explicitly been built into the score.

7.17 The Making Ends Meet domain of financial capability measures whether people are able to manage within their available means. It does not measure income per se but does isolate those who have difficulty keeping up with bills or regularly run out of money. The domain score is built upon a number of behavioural and attitudinal statements, including:

- How well an individual currently keeps up with bills and credit commitments / whether they run out of money;
- Whether an individual has experienced financial difficulties in past five years;
- Ratio of unsecured borrowing to saving;
- Use of overdrafts and credit for day-to-day spending;
- Whether an individual plans expenditure and plans ahead for bills;
- Frequency of checking money in current account;
- Attitudes to finance (impulsiveness in spending, more a saver than a spender, preference for buying on credit or cutting back expenditure rather than putting on credit, whether organised in managing money, never late paying bills).

11.3 million individuals have a score for Making Ends Meet in the bottom quartile. Their average incomes are typically lower than those with scores in the top three quartiles, as shown in the graph below:

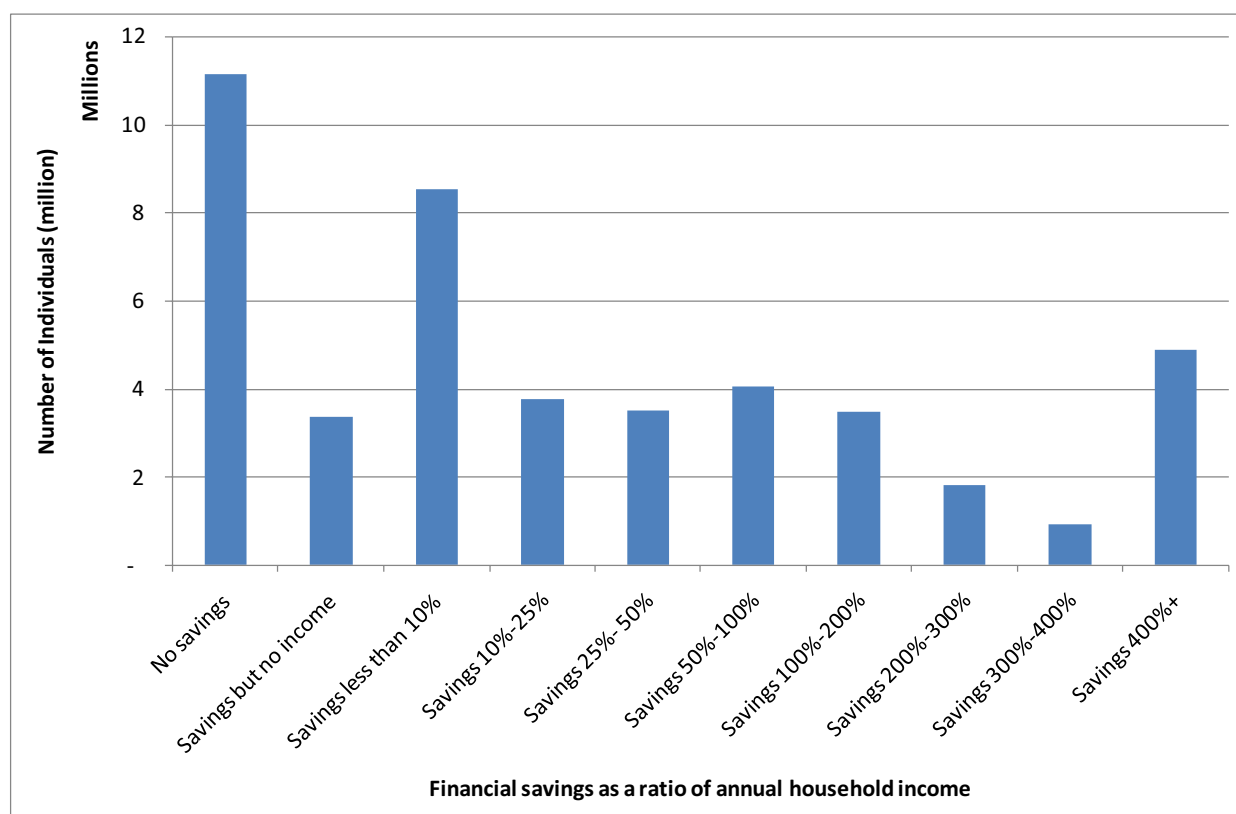
**Average incomes of bottom quartile scores for Making Ends Meet**



7.18 The baseline survey indicates that approximately 25% of the adult population (11 million people) have no financial savings.<sup>21</sup> Of the remaining 75%, just over 8 million have savings of less than 10% of their annual household income. However, at the other extreme, almost 5 million individuals have savings of more than four times their household income.

7.19 Savings do not appear to correlate particularly strongly with debt. Among those with no savings, 31% are over-indebted (measured by unsecured debt being 100%+ of annual household income). However, among those with high levels of savings, this figure levels out at around 20%.

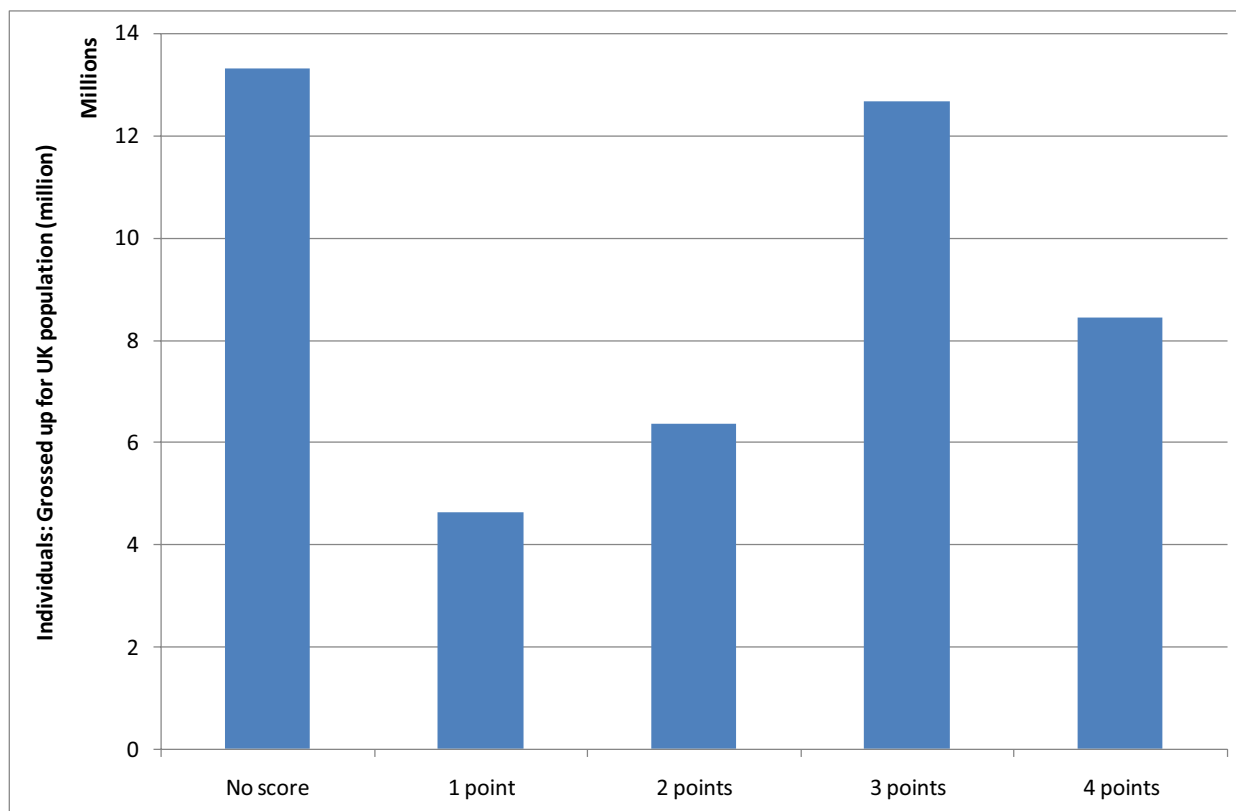
**Financial savings of UK population as a proportion of household income**



<sup>21</sup> Defined here as cash-based savings, life assurance savings products, collective investments, National Savings, shares and bonds. The definition excludes any pension savings.

7.20 When the factors that make up consequences are summed, the distribution of scores is as shown below. Almost one third of the population scores zero on all of the elements of the score and are therefore to some extent protected from the consequences of poor financial decision making through being able to manage their finances and through having savings to fall back on in the event of a loss of income.

**Consequences Scores**



7.21 Among those with 1 point, the major driver is not having a year's worth of household income in savings (77%). The remaining 23% have a low score on Making Ends Meet. For all of the other scores, it is lack of savings rather than making ends meet that drives the score. Those with 4 points struggle to make ends meet and have very little savings.

7.22 **Vulnerability.** The baseline study contains the following information that has been used to define vulnerability. Individuals are considered vulnerable if:

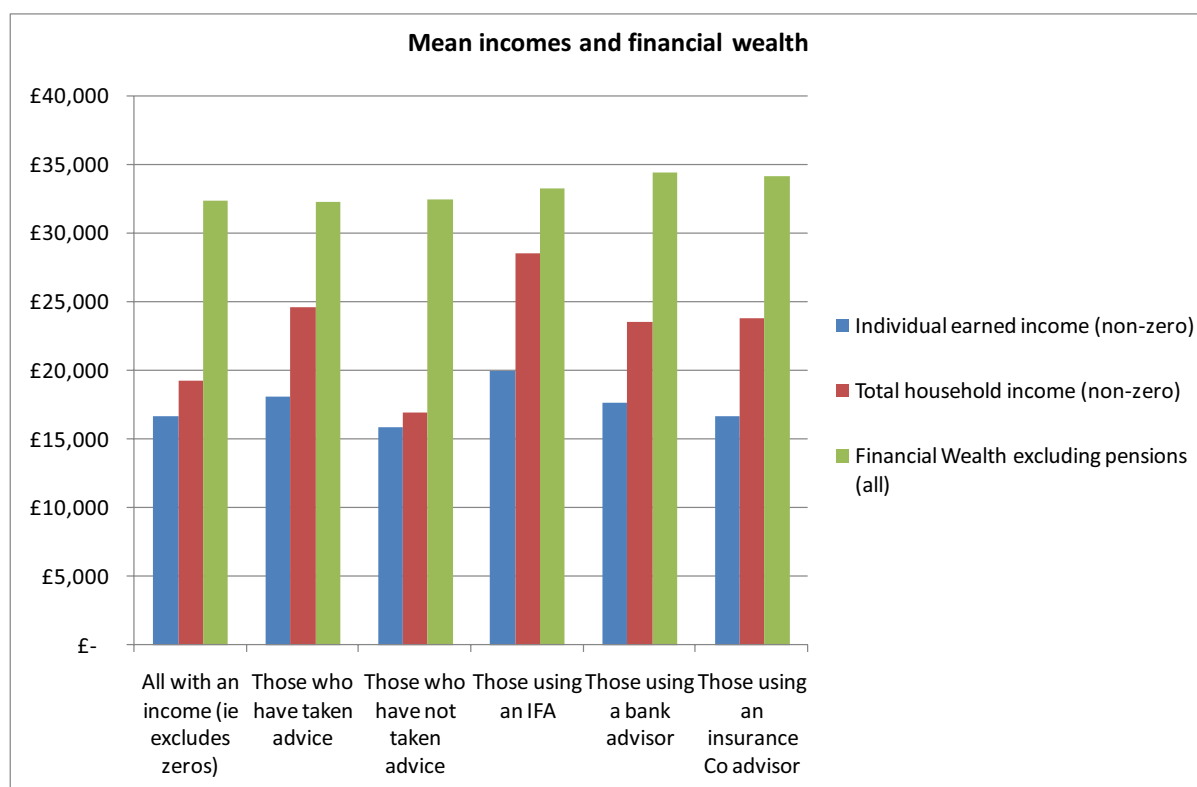
- They have low scores on the financial capability domains of Choosing Products and Staying Informed;
- Their levels of income and wealth levels suggest that they may have limited access to commercial advice services (exclusion from advice);
- They do not have access to a bank account (or other financial products);
- They have low levels of literacy;
- They score highly in the Government's IMD.

An individual is attributed a score of 1 point for each of these elements where they apply. The total score for vulnerability is the sum of these scores. The maximum score for vulnerability is therefore 5 points.

- 7.23 The Choosing Products domain is designed to assess individuals' knowledge of financial products and the actions that they took in selecting their recent product purchases. It does not assess whether the products that they have purchased were suitable to their needs. An individual is classified as vulnerable if their score is in the bottom quartile or they have no score for this domain (those with little or no engagement with financial products were not allocated a score for this domain). The score is based upon the following factors which were derived from a large number of questions in the survey:
- Whether information was collected when selecting products (by themselves or an adviser);
  - The main source of information for active product purchases (whether advice was taken or best buy information was used);
  - Checking whether the adviser was authorised;
  - How respondents chose the products – whether reliant upon another (e.g. an adviser) to choose the best product or supplemented this with own research;
  - Why a respondent chose a particular product – which features of a product (e.g. price, product design) influenced the decision to buy;
  - Whether they, or someone else on their behalf, read the terms and conditions.
- 7.24 The scores for this domain indicate that for those measured, most people scored towards the lower end of the scores for Choosing Products, indicating low levels of capability across the population. Furthermore, analysis indicated that age and experience are important in explaining capability. Those in the age band 18-19 had the lowest average scores whilst those aged 50-59 had the highest scores. Those with low scores hold on average 2.9 different types of product whilst those with higher scores hold on average 4.8 different types. Those on low incomes and those who are not owner-occupiers were also more likely to exhibit low scores, perhaps indicating that house purchase is an important step in gaining experience and confidence in purchasing financial products.
- 7.25 20.3 million individuals either have scores which are in the bottom quartile or no score at all due to lack of recent engagement with financial products.
- 7.26 The Staying Informed domain was developed as a measure of whether people keep abreast of financial matters and their use and awareness of mechanisms for dealing with problems or complaints. Individuals have been classified as vulnerable if their score for this domain is in the bottom quartile. Just over 11.3 million individuals have lowest quartile scores in this domain and 7.9 million individuals have low scores in both Choosing Products and Staying Informed (17% of the adult population).

7.27 Financial exclusion in the context of this report is focused on those individuals who might find it hardest to access financial advice from the commercial sector. The variables used to make this assessment have been based on a combination of income and wealth. Income criteria have been varied according to whether the individual lives in London or the South East or outside of these regions. These criteria are being used as a proxy for a person being economically viable for an adviser to service. The parameters have been set following consultation with trade bodies and observations made in the responses to the call for evidence. However, much of the evidence for this is anecdotal.

7.28 Analysis of the baseline survey shows that those who have used an adviser in the past five years are more broadly spread across the income and wealth spectrum (although this may be based upon higher incomes in the past). There is considerable anecdotal evidence that some advisers are able or willing to serve lower income groups, either cost-effectively or as a loss leader. As the chart below shows, those recently taking advice have incomes only 14% higher and financial wealth that is slightly lower than those who have not. Only household income is significantly higher at 45%.



7.29 The model sets the variable for financial exclusion from advice at 1 point if the individual is:

- Living in the South East or London and has an individual income (after tax and NI) above £15,000 or a household income above £30,000 (after tax and NI) or has savings and investment wealth (excluding pension) above £50,000;

- Not living in the South East or London and has an individual income (after tax and NI) above £10,000 or a household income above £20,000 or has savings and investment wealth (excluding pension) above £50,000.

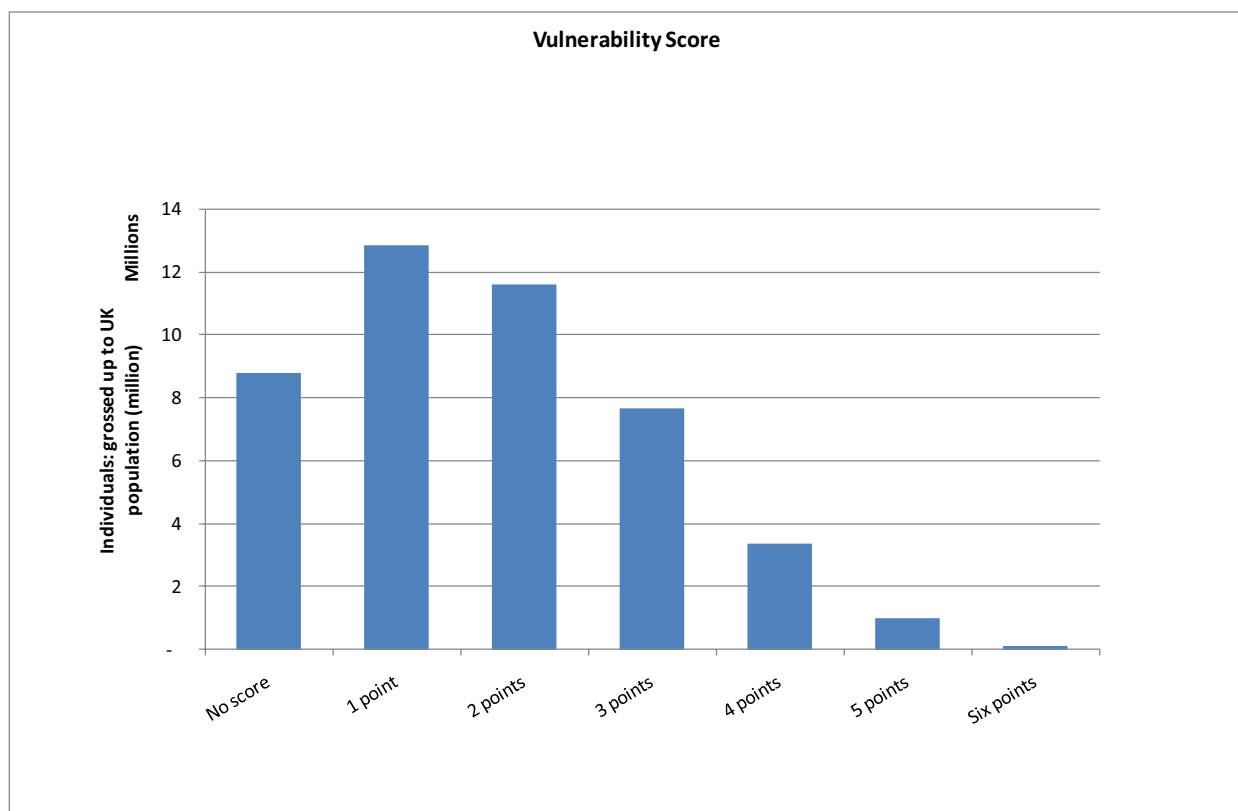
The parameters for this have been based upon anecdotal evidence drawn from conversations with industry experts, indications provided in the responses to the Call for Evidence and data published by the ABI.<sup>22</sup>

- 7.30 On this basis, up to 31.5 million individuals, or almost 70% of the adult population, are not economically viable for advisers to serve. This figure is likely to be overstated due to the number of individuals in the survey recording no income where they are in employment. 6% of the survey respondents, representing 2.8 million individuals, are working but have not revealed any individual or household income data in the survey. The financially excluded could therefore fall to 28.7 million.
- 7.31 Lack of access to basic financial products can also be a source of vulnerability as it may also lead to lack of access to advice from financial institutions (banks or insurance companies). The work of the Financial Inclusion Taskforce has to date been largely focused on those who do not have access to basic bank accounts and/or affordable credit. The baseline survey indicates that 10.8% of the adult population (4.9 million individuals) does not have a bank account, however more than half of these are holders of other financial products, in particular a bank or building society savings accounts, a credit card or a mortgage. Many of these may also be holders of a Post Office Card Account. Indeed the unbanked figures quoted by the Government, based on the Family Resources Survey which measures holders of financial products in a different way, are lower. In the 2005/06 survey, 2 million adults living in 1.3 million households are shown as not holding a bank account.
- 7.32 In the baseline survey, 5% of the population (2.3 million) have no financial products and might be considered as particularly vulnerable due to lack of engagement with financial services.
- 7.33 Those with IMD scores in the bottom two deciles (i.e. the top 20% scores) across all regions of the UK have been attributed 1 point. This approach is simplistic and may not accurately compare those with low scores across England, Northern Ireland, Scotland and Wales. However, since the score forms only one part of a much larger score it was felt that this was adequate for this stage of analysis. A more detailed examination of IMD might yield some refined analysis. A total of 9.1 million individuals (20% of the adult population) have scores in the bottom two deciles of IMD.
- 7.34 Difficulties with literacy have been taken from a variable in the FSA baseline survey which was completed by the interviewers. Interviewers were asked to record whether the individual respondent had trouble either reading or understanding English. A total of 3.7 million individuals score positively against at least one of these.

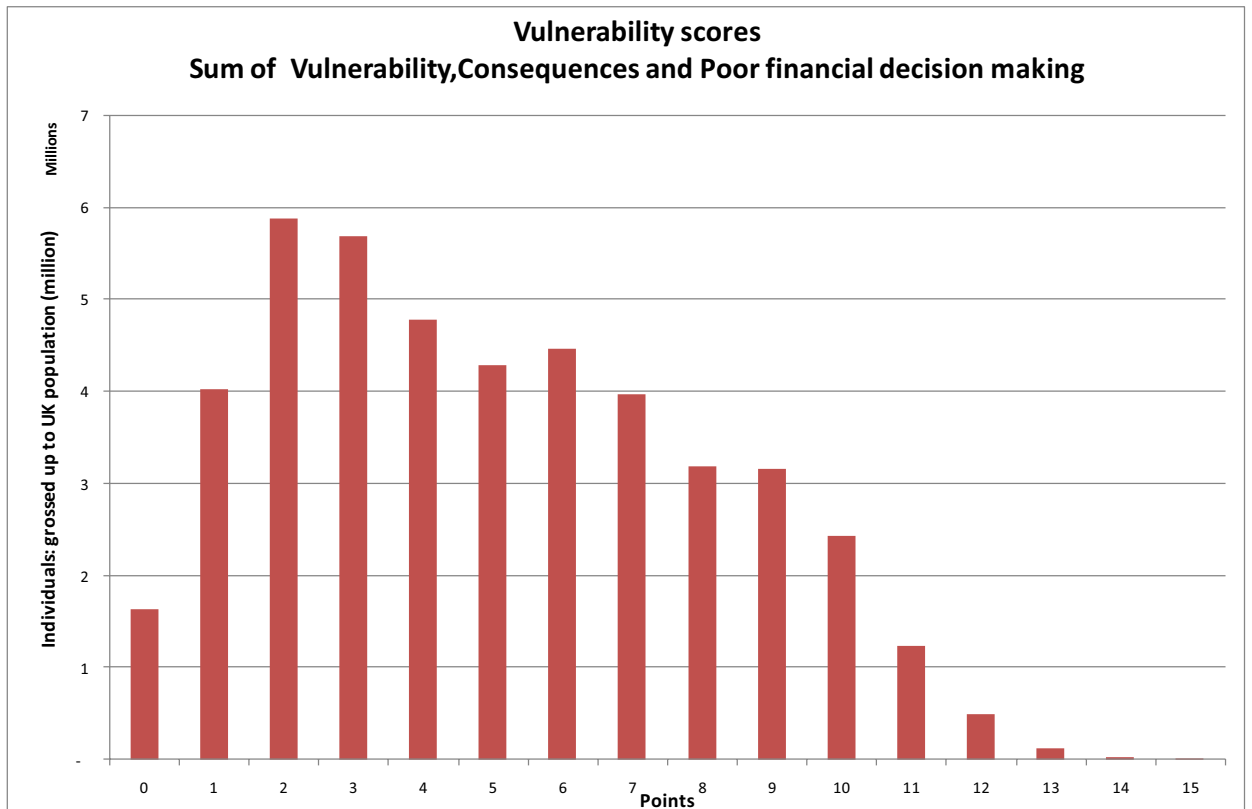
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<sup>22</sup> "Strategies for Tackling the Savings Gap – The Role of the Saver Agent", ABI

7.35 When the factors that make up consequences are summed, the distribution of scores is as shown below. An individual who scored 1 point for each of the components would score the maximum of 6 points. An individual who has none of the characteristics would score zero. Combining the components in this way identifies 4.5 million people with a vulnerability score of 4 or more points. The distribution of scores as follows:

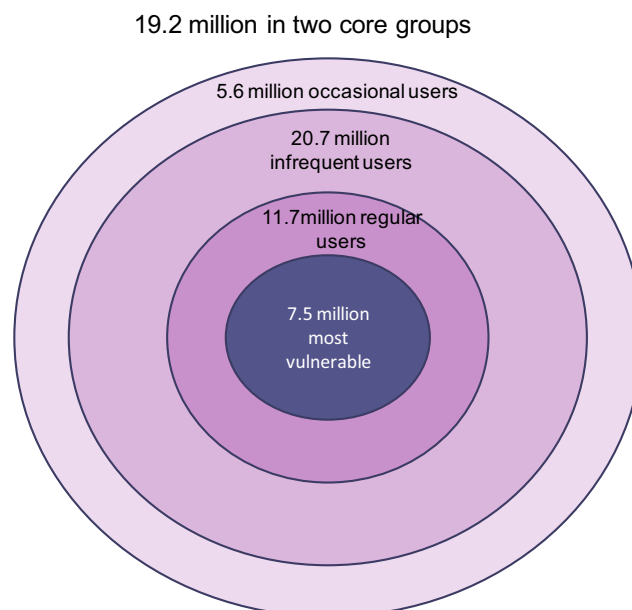


7.36 Summing up the scores of the 'vulnerability' and 'consequences' and 'poor financial decision making' domains provides us with a more complete view of "those most vulnerable...". The maximum possible score from summing all of the factors is 17 but the highest actual score is 15. Summing the scores provides the distribution shown below:



7.37 Very few individuals score 11 points or above and the unweighted sample size for the final few scores is very small. In order to provide us with a group which can be profiled further, all of those with a score of 11 points or more have been grouped together as “those most vulnerable to the consequences of poor financial decision making”. For simplicity, we will call them the ‘most vulnerable’ in the following sections of this report.

7.38 Combining scores 7 points and above gives us the following segment sizes:



7.39 The table below summarises the characteristics of vulnerability that bind each group, their expected needs from a GFA service (hypotheses formed by examining the detailed profile of each group) and their demographic profile.

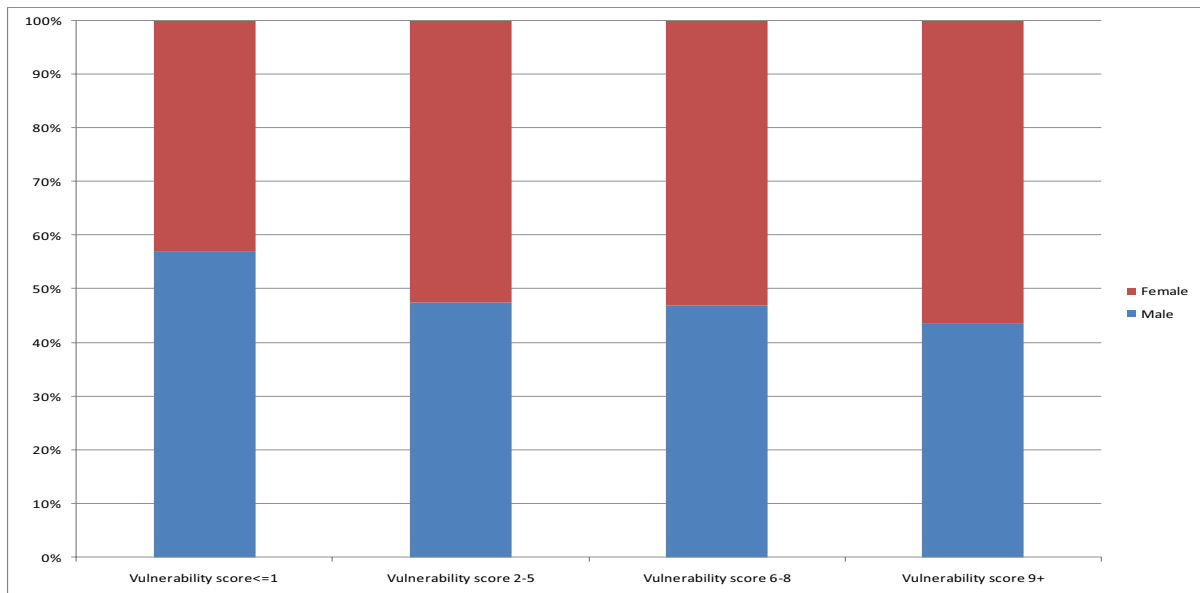
	Most vulnerable	Regular users	Infrequent users	Occasional users
Number of UK adults	7.5 million	11.7 million	20.7 million	5.6 million
Vulnerability	Multiple drivers of vulnerability: lack of access to commercial advisers, poor planning ahead, very limited savings or protection, limited financial portfolio and therefore limited knowledge of products, difficulty making ends meet and over-indebtedness (almost half). Many who are working have no pension. One in five may have literacy problems and 50% live in areas with high levels of multiple deprivation.	Vulnerability driven primarily by not being adviser prospects (majority), not being experienced at choosing products, some lack of savings, over-indebtedness (one in three). Showing signs of not being good at planning ahead and more than one in three with low scores on making ends meet. However, generally good at keeping track of money and many have some savings. One in ten may have literacy problems and >20% in areas with high levels of multiple deprivation.	Vulnerability driven primarily by not being adviser prospects (about two-thirds), not being experienced at choosing products or not good at keeping track of their money. Results in some over-indebtedness (around 1/3 <sup>rd</sup> ) and some lack of savings but generally good at planning ahead and staying informed. At upper end of scores, some struggling to make ends meet. Small number have literacy problems and one in ten in areas with high levels of multiple deprivation.	Some lack of access to commercial advice and poor at keeping track of money but otherwise no significant signs of vulnerability. Consequences of subsequent poor financial decision making unlikely to be significant for many (due to relatively high level of saving). Not at risk due to poor financial capability. No strong evidence of poor decision making.
Expected needs of GFA	Approximately half of this group might be expected to require either crisis intervention or support from other agencies. Others expected to need help with pre-crisis managing debt and budgeting. Personal Account prospects.	Some crisis intervention but majority could gain help with interpreting products, managing debt, increasing savings and budgeting. Personal Account prospects.	Many of this group are capable of finding information and advice without the support of GFA. They do, however, need help in understanding products and some money management techniques. Focus on jargon busting.	Majority will not require targeted support from GFA. However, this group includes many approaching or in retirement. Some support may be required in complex areas such as annuity purchase and equity release.
Demographics	Average incomes 60% of national average. All household incomes <£40,000 after tax. Approx 20% have no financial products (yet). On average hold one banking or saving product types. 30% has no bank account. Much younger than average, 70% aged under 45, 8% aged over 65. Slightly less likely than average to be working but more likely to be working part time. Slightly more female than male. Many more singles, separated and divorced than average. Only 25% married. Approx 25% single parents. Higher than average in Wales, Scotland, NI and in England in NW, NE and London. Slightly higher than average non-white. Lower education levels than average (20% A levels and above). <20% own their own home, half in social housing.	On average incomes slightly lower than national average – almost half with incomes between £10k and £30k after tax. Approx 5% with higher incomes. On average hold two banking / savings product types. Younger than average, 62% aged under 45, 16% aged over 65. Slightly more likely than average to be working full time. Slightly more female than male. More singles and divorced than average but >40% married. >15% single parents. Higher than average in NW, NE, W. Midlands and London. Slightly higher than average non-white. Slightly lower education levels than average. <50% own their own home, more social housing and more private renting than average.	Incomes higher than national average – fewer very low incomes than least vulnerable but also fewer very high incomes. On average hold four banking / savings product types. Age more typical of population. 45% aged under 45, 22% aged over 65. Slightly more likely than average to be working full time. Slightly more female than male. Slightly more likely to be married than average and with dependent children. Broadly geographical spread. Ethnic mix closer to population average. Slightly higher education levels than average. Three quarters own their own home, less social housing than average.	Typically higher income and/or wealth (although one in three have household income <£10,000pa after tax). On average hold seven banking / savings product types. Older (60% over 55). Half have retired, most of remainder in full time work. More male than female. Predominantly married (but most no longer have dependent children). More likely than average to live in SE, SW, East of England or Yorkshire. Less likely than average to live in London, NE or Wales. Few non-white individuals 60% A Level or above. >90% own their own home (>30% no mortgage).

7.40 The following section of this report provides a more detailed profile of the four groups outlined above.

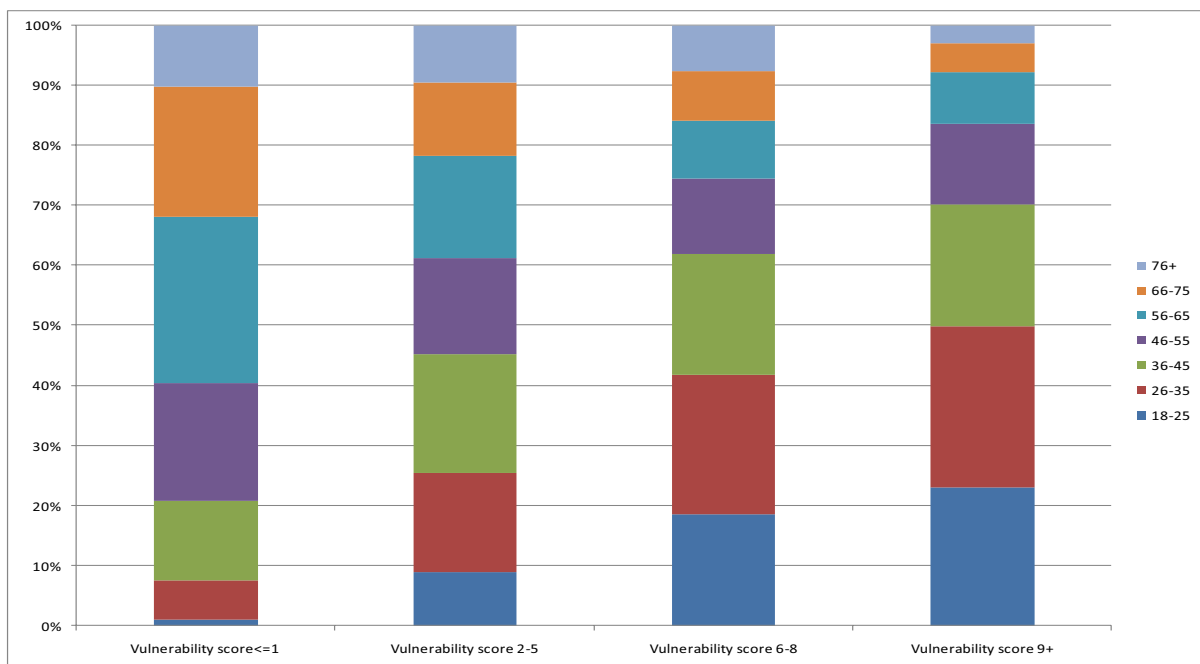
## 8 Profiling the Target Market

8.1 This section provides a detailed profile of the target market through further analysis of the FSA's baseline survey. By way of shorthand, the group with scores of 9 points or more is referred to as the 'most vulnerable' group whilst those with a score of 1 point or less is referred to as the 'least vulnerable' group.

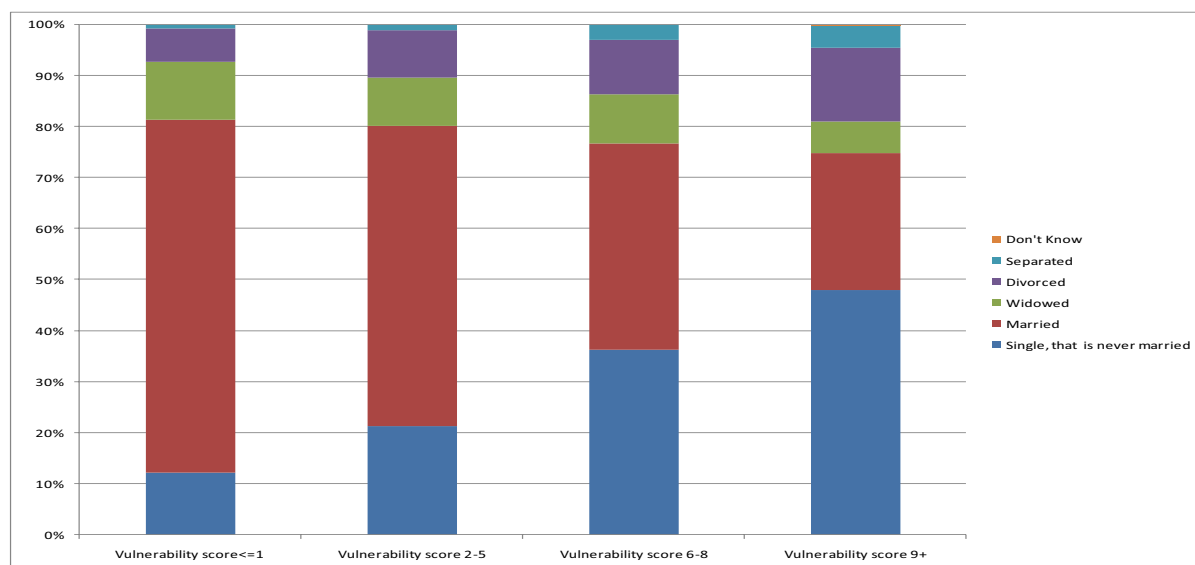
8.2 Gender - 57% of the most vulnerable group are female compared to 43% of the least vulnerable.



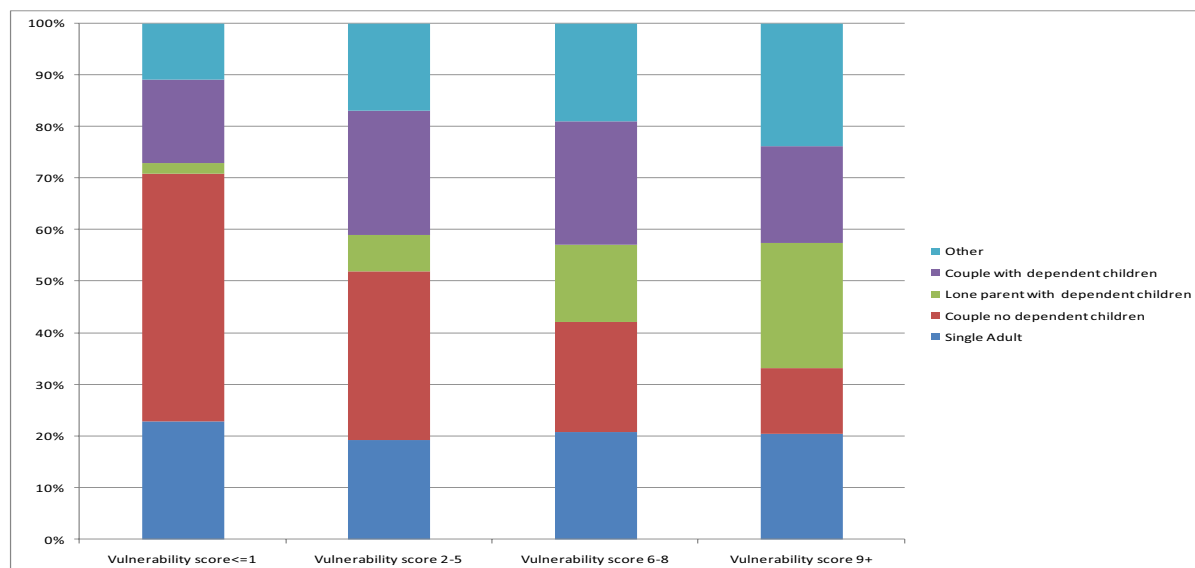
8.3 Age – 70% of the most vulnerable group are aged 45 or below and half are aged under 35. Average ages fall from 58 in the least vulnerable to 39 in the most vulnerable.



8.4 Marital Status – people in the most vulnerable group are significantly more likely to be single and never married (48%) or widowed, divorced or separated (25%) than the population as a whole and those in the least vulnerable group. Among the least vulnerable, married status is significantly more dominant.



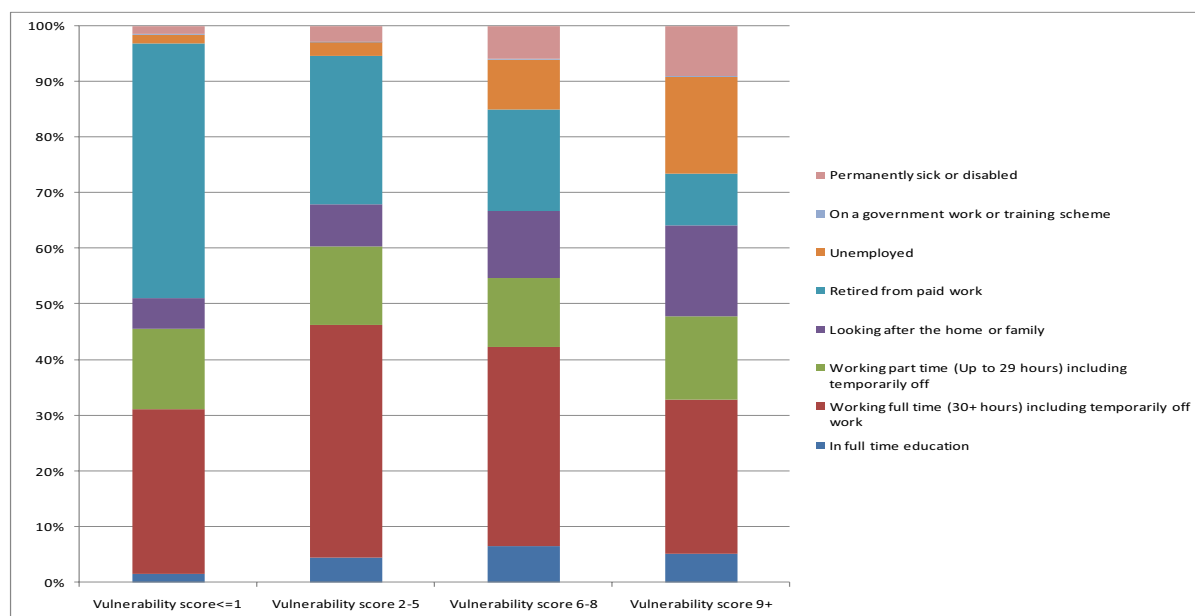
8.5 Lifestage / age of children – 24% of the most vulnerable group are single parents with dependent children. The most vulnerable are much less likely than average to be in a couple with no dependent children.



8.6 Ethnic group / migration – 15% of the most vulnerable group were not born in the UK compared to 10% across the whole population. Irish White and all non-white or mixed-race groups are over-represented among the most vulnerable.

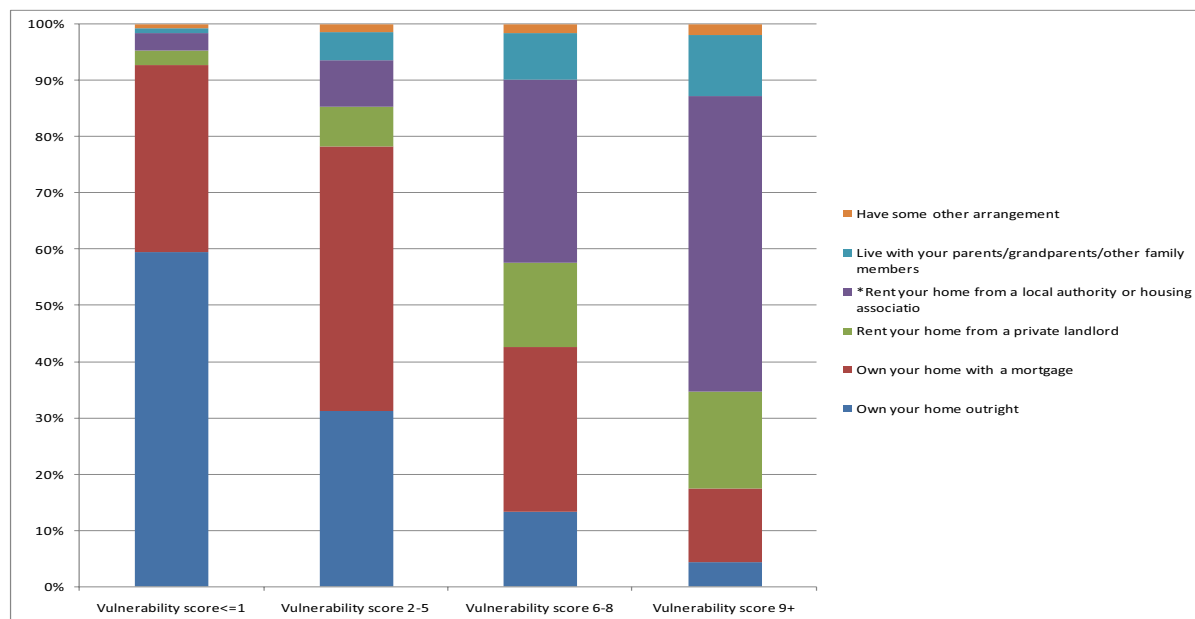
8.7 Qualifications – 32% of the most vulnerable group have no qualifications and of the remainder, the majority has reached O level / GCSE. However, a very small number of those with post-graduate qualifications appear in the most vulnerable group.

8.8 Working status – 43% of the most vulnerable group is working – slightly lower than across the population as a whole. Only 9% are retired, 26% are unemployed or long-term sick, 5% are full-time students and the remainder (16%) are carers. The proportion of retired is highest in the least vulnerable group.



8.9 Region – people in the most vulnerable group are slightly more likely than average to be living in Northern Ireland, Wales or Scotland. Within England, the most vulnerable group is slightly skewed towards London, the North West and the North East.

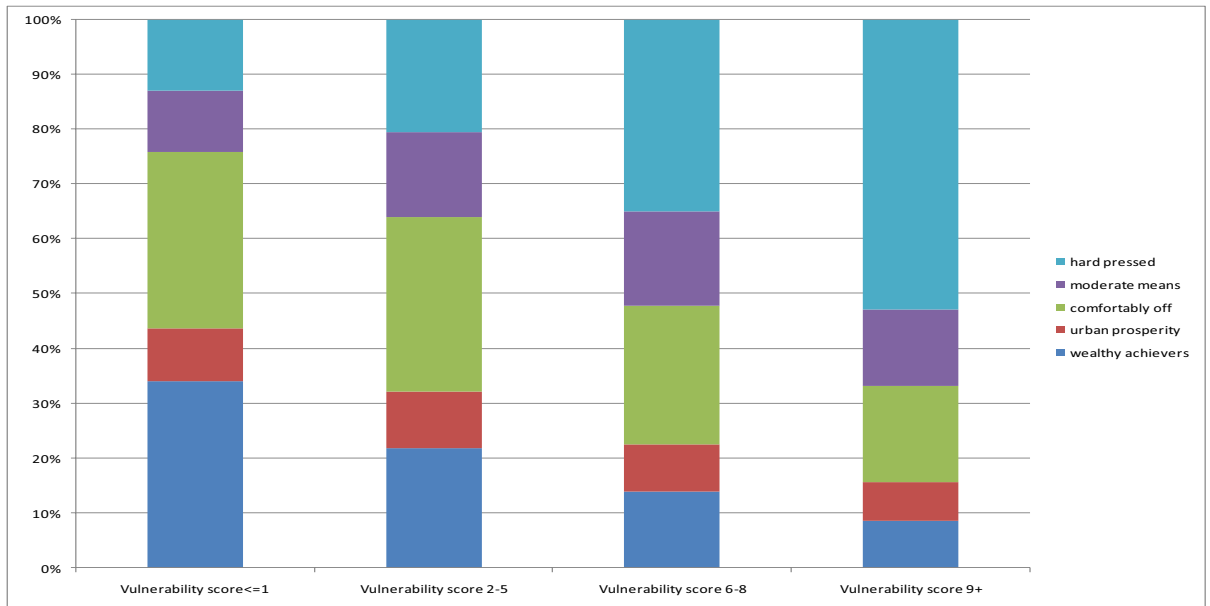
8.10 Housing tenure – people in the most vulnerable are significantly less likely to own their home, with or without a mortgage. More than half rent their house from a local authority or housing association. A further 11% live with their parents and 17% rent privately.



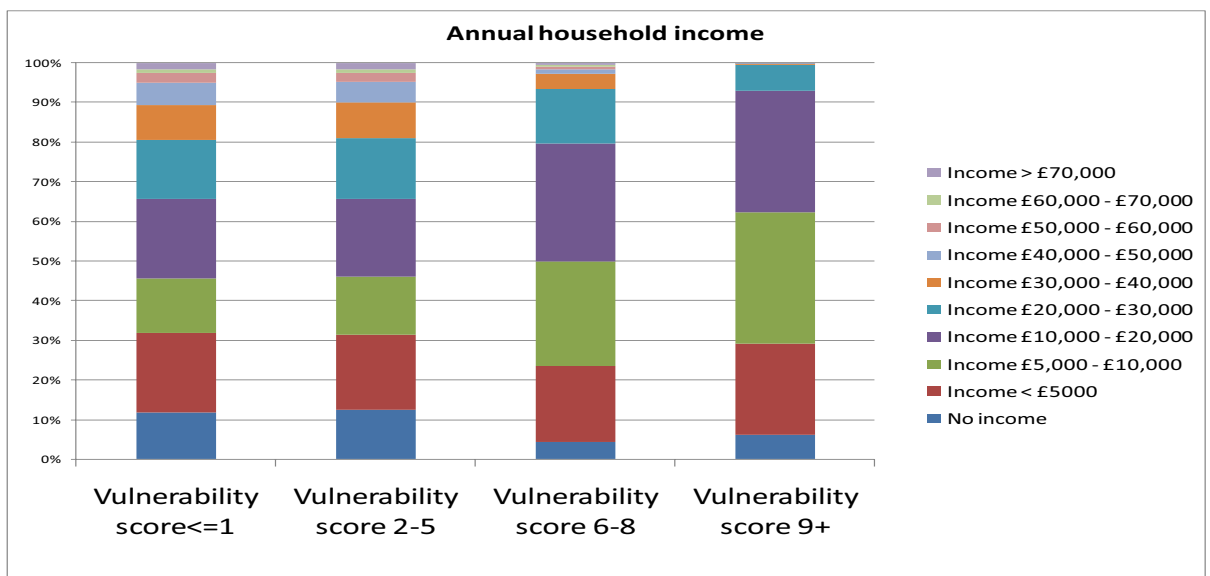
8.11 Geo-demographics - analysis of Acorn categories reveals that whilst more than half of the most vulnerable group live in areas of the country classified as 'Hard Pressed'. Of the remainder:

- 9% are Wealthy Achievers;
- 7% live in Urban Prosperity;
- 13% are Comfortably Off; and
- 14% have Moderate Means.

The chart below shows how the Acorn segments vary by vulnerability scores.

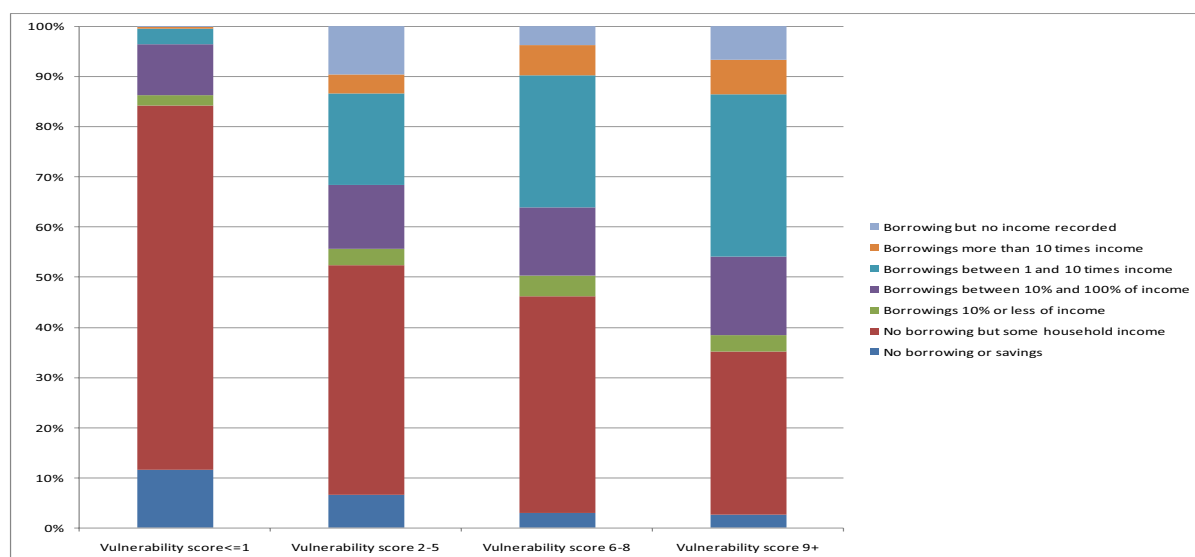


8.12 Household income - 93% of the most vulnerable group live in households with an after-tax income of less than £20,000 compared to 66% of the least vulnerable. Mean household income for the most vulnerable is 60% of the national average compared to 114% for the least vulnerable.



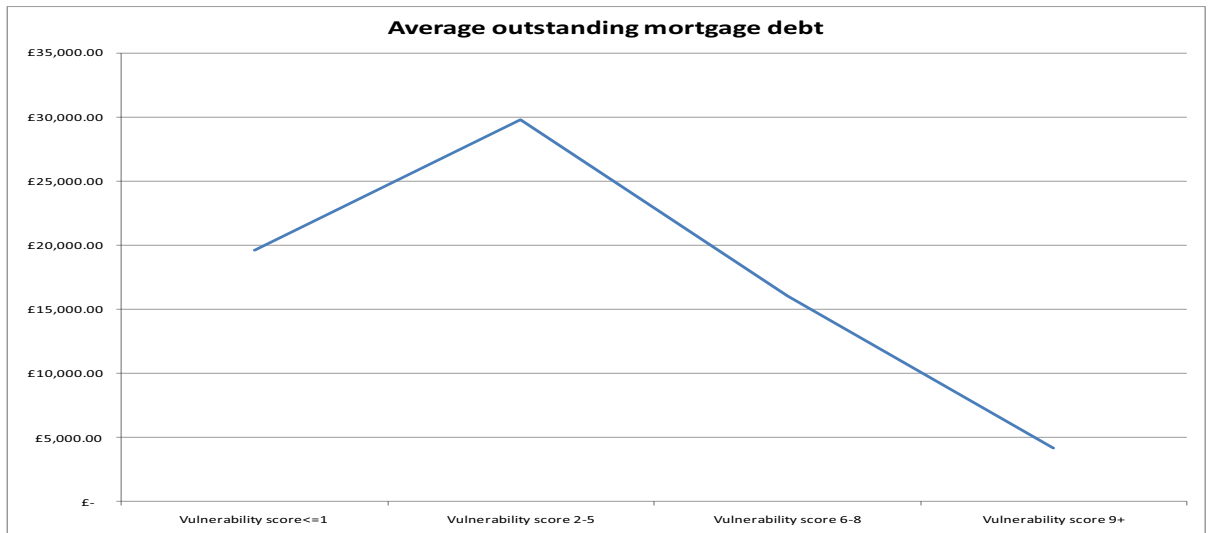
The picture is, however, more complicated than a simple correlation with income. Many of those who are least vulnerable live in households with very low income. Whilst many of these are retired and living on the basic state pension, some are reported to be working full time. Income is used in one element of the 'vulnerability' scores – as a parameter for defining whether an individual is economically viable for a commercial adviser to serve. Some relationship between the score and income would therefore be expected.

8.13 Unsecured debt - 65% of the most vulnerable group have some unsecured debt compared to just below 50% of the total adult population. The ratio of unsecured debt to income is also higher among this group, with more than one in ten borrowing more than 10 times their annual income or having no income. On average, the most vulnerable group has almost £2,500 of unsecured debt (includes zeros) whilst the least vulnerable has £336. The debt profile is driven in part by the inclusion of over-indebtedness in the 'vulnerability' score.

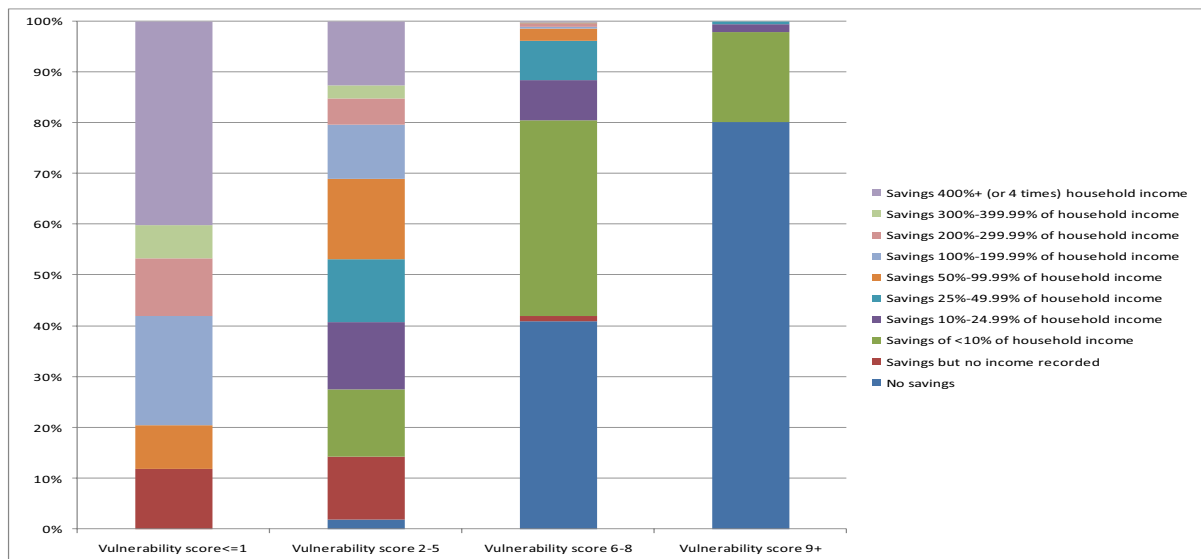


8.14 Mortgage debt - the picture for mortgage debt is somewhat different with many of most vulnerable not having a mortgage. Average mortgage debt (including zeros) is highest among those with a vulnerability score of 2-5 points and falls away among those with a higher score. Of those with a mortgage in the most vulnerable segment (9%), one in three feels that they would struggle with their mortgage and/or other financial commitments if their mortgage payments were to rise by 10%.

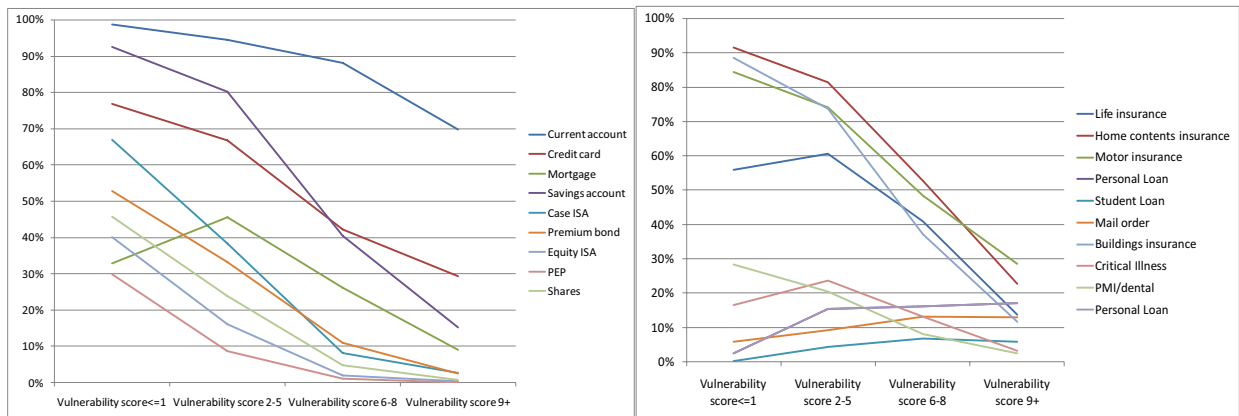
Overall, average debt levels (unsecured and mortgage combined) among the most vulnerable group are lowest at 73% of average income and highest among those with scores of 2-5 points at 192% of average income.



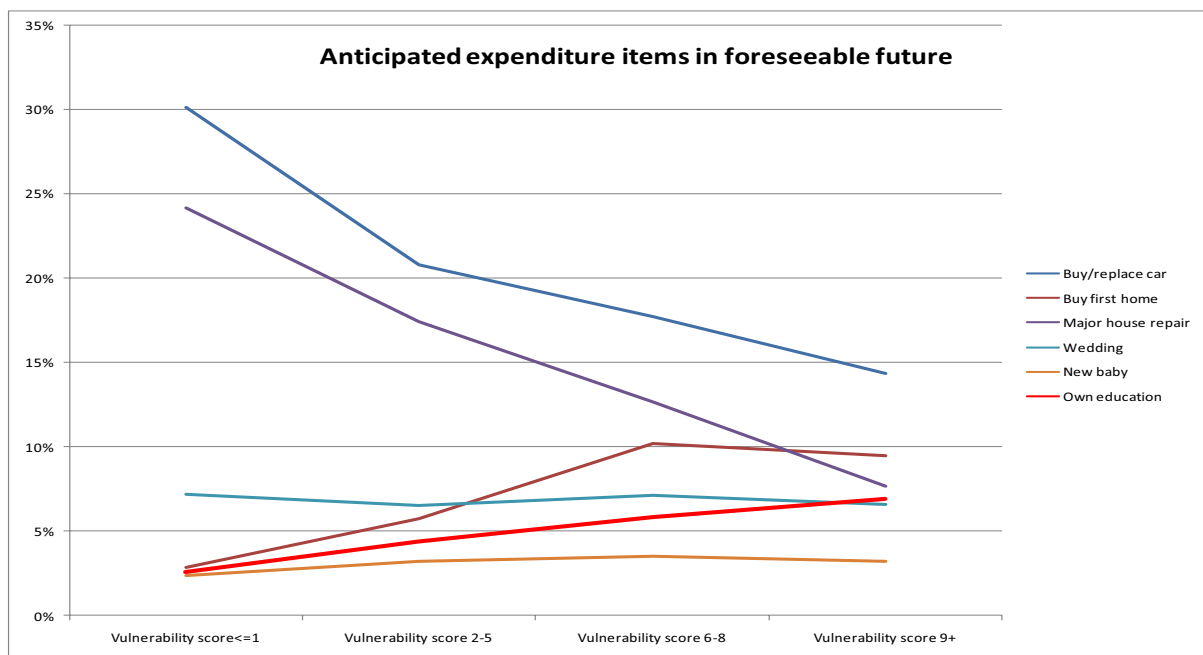
8.15 Saving activity - the majority of the most vulnerable group (80%) do not have any savings. Most of the remainder have less than 10% of their annual household income in savings (less than two months of income). The savings profile is driven in large part by the use of savings in at least five elements of the overall 'vulnerability' score used in this analysis.



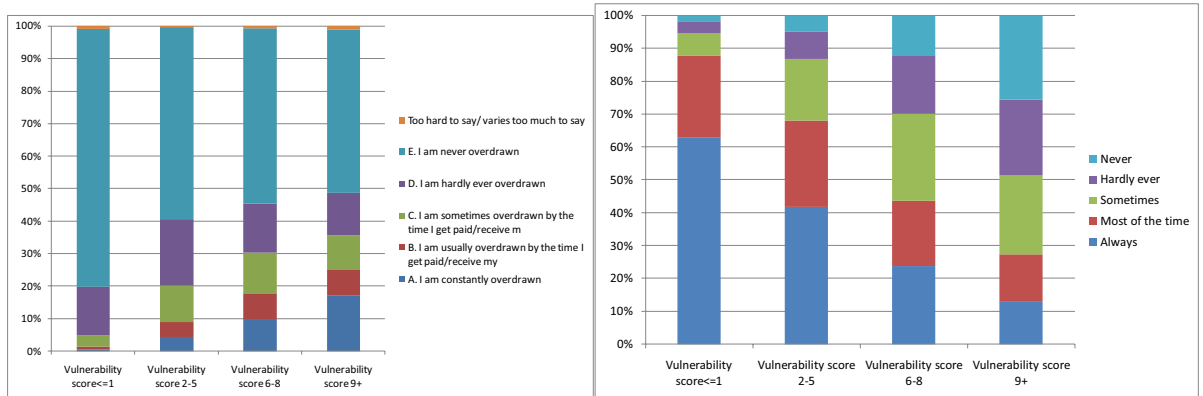
8.16 Product holdings - 23% of the most vulnerable group hold no banking or savings products (driven in part by the inclusion of this in the scoring) whilst 36% own no insurance products or loans. Just over two-thirds hold a bank account, only 15% a savings account and only 4% a personal pension. However, they are also significantly less likely to have a credit card or a mortgage. The chart below shows the most significant products held across all of the groups.



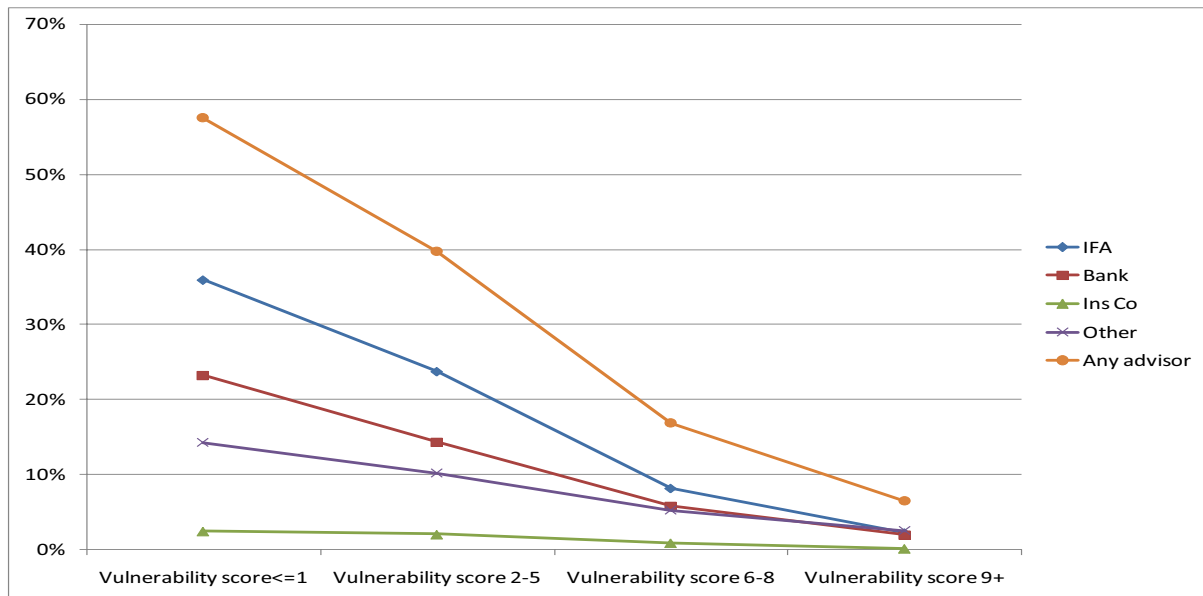
8.17 Future expenditure - a question posed about future major expenditure items sheds some light on future expectations. One in ten of the most vulnerable group and those with scores of 6-8 points expects to buy their first home in the foreseeable future. Approximately 7% of both groups expect to have to finance their education further. Among the least vulnerable group, future expenditure is more focused on home improvements, cars and travel.



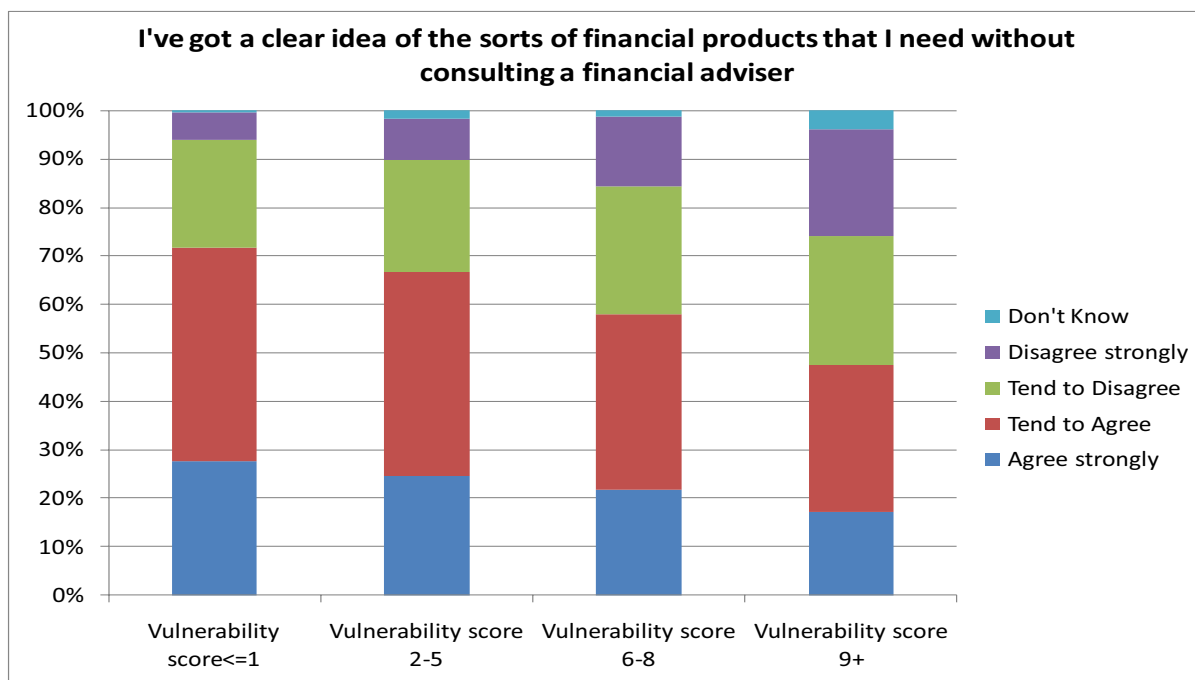
8.18 Money management - in spite of lower incomes, the majority of the people in the most vulnerable group do not regularly go overdrawn on their current account and many (51%) have money left over at the end of the month.



8.19 Use of advisers - only 6% of the most vulnerable group have received professional financial advice within the past five years (compared to 31% across the population as a whole). Among the most vulnerable who have seen a financial adviser, one-third classify their adviser as an IFA, one-third as a bank and one third 'other'. Almost one half of the least vulnerable who use an adviser classify them as an IFA.

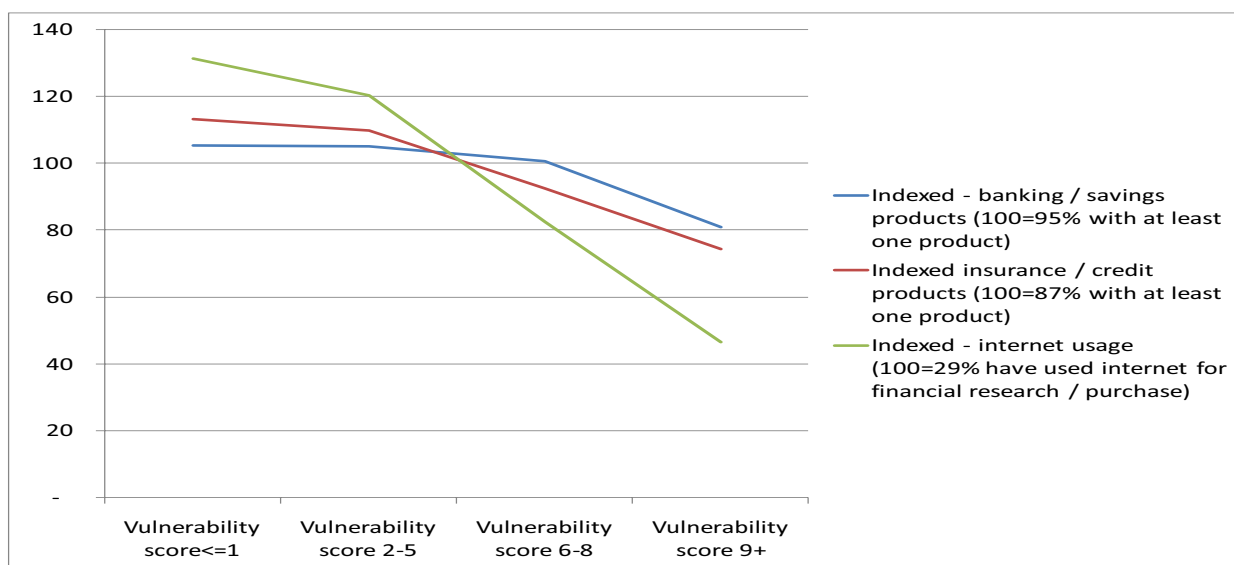


8.20 Although people in the most vulnerable group have little experience of financial advice, they are the least likely to feel that they have a clear idea of their own needs without consulting an adviser. 76% of the most vulnerable feel unable to choose a suitable pension or investment for themselves compared to only 48% of the least vulnerable.



8.21 Although financial planning advisers are not used extensively among the most vulnerable group, almost twice as many (11%) have sought advice over financial difficulties in the past few years (compared to 5% of the whole adult population). Among the most vulnerable who have sought advice, Citizen's Advice Bureaux have been the most commonly used source of help (63% of the 11% who sought advice used this service).

8.22 Use of internet – people in the most vulnerable group are the lowest users of the internet for financial product research. This is partly explained by their lower levels of ownership / purchase of products. However, as the chart below shows, usage of the internet declines more steeply than ownership of products, perhaps suggesting a lack of access to the internet, an aversion to using the internet for financial products or a less active role in shopping around when buying.



8.23 Financial attitudes and behaviour - many of the attitudes included in the financial capability baseline survey are incorporated into the domains used to describe capability. Given the use of the domains in the scores for vulnerability, it is natural therefore to see some relationship between the groups and attitudes. However, there are a few attitudes and behaviour which provide possible clues as to the types of problems and issues that a GFA service might need to deal with if targeted on those with higher scores:

- half of the most vulnerable group regularly find themselves late paying bills;
- one-third accept that they may have to pay for everyday expenditure on credit cards, even if they are unable to pay the debt at the end of the month;
- more than two-thirds would rather buy now on credit than save up;
- 40% admit to being impulsive when it comes to buying things that they cannot really afford;
- Almost three in four agree that they would rather live well today than save for retirement;
- Only 40% agree that they tend to have enough money saved for a rainy day.

8.24 The profile outlined above provides clues to the needs of the target market for GFA. However, much more will need to be learned from the consumer research and evidence from the pilots to confirm the scope, content, engagement tone and media to be used. The final section of this report draws some preliminary inferences about the lessons learned for implementation of GFA.

## 9 Implications for GFA design

- 9.1 The profiles of the most vulnerable groups outlined above provide us with some clues about their likely needs of a GFA service, the design of the service and the issues for engaging consumers. The clues we have provide us with some early thoughts on the scope and content of the information and guidance to be supplied and on partners with whom a GFA service might work.
- 9.2 In shaping the content and scope of the GFA service to meet the needs of the most vulnerable people, it will be important not to replicate the crisis intervention services that already exist across Government and the third sector. As the Review's terms of reference state, the focus of the service is on prevention rather than crisis support. Some of those most vulnerable will require access to crisis support before they ever move on to any preventative measures. However, not all individuals in the most vulnerable groups are in crisis. The profile outlined above suggests the following needs across the four vulnerability groups:
- Some in the most vulnerable group need help with day-to-day money management issues – budgeting, paying bills, understanding their financial position. Others who have some money to spare at the end of the month may need help with re-scheduling their credit payments or starting to save. Some expect to buy their first home in the near future and will need help with saving for a deposit and finding a mortgage. Facing up to credit issues before they become a crisis will be a need for many in this group. In the lead up to the implementation of Personal Accounts, many will need help with whether to join the scheme, and if so how to invest their money. Whilst many in the most vulnerable group may be in need of crisis intervention in relation to their debt position, some may also call upon GFA for other financial matters, for example how to claim on their car insurance.
  - Those with 6-8 points have a similar range of issues but with less emphasis on day-to-day money management. Being slightly more affluent and slightly older than the most vulnerable, this group may require help sorting out their longer term financial matters, such as life cover, starting a pension, saving for their children. Some in this group are retired or approaching retirement and may need help with releasing equity from their homes, financing long-term care or purchasing annuities at retirement.
  - Those with 2-5 points have relatively high levels of financial capability and high levels of product ownership. However, many will not be attractive customers to some commercial providers of advice and they may still feel the need for a service that provides them with information about products (jargon busting) and links to other sources of information.

- The least vulnerable appear to have least need for a GFA service, however their levels of financial capability will almost certainly mean that they become aware of a service and may choose to use it as a supplementary source of information. Even within this group, needs may arise that cannot be met through either existing market knowledge or through an adviser relationship. This is particularly true of some of the older, low-income individuals in this group, who may need help with financial matters of which they have no previous experience – equity release and funding long term care being the more obvious.
- 9.3 Whilst our analysis provides some clues as to which media will work best with which groups, conflicts are also evident. The most vulnerable are younger than average, which would imply the use of modern technology. However, this group also contain a significant number of individuals with literacy problems and very low levels of financial capability, which would imply a more personal service. Those who are less vulnerable are older, which would imply a more phone-based solution, and yet they are the heaviest users of the internet for financial issues. Further work will be required in order to identify the most appropriate mix of media for each group.
- 9.4 The tone of engagement and brand will need to vary across different groups, depending in part upon the media being employed and the needs being met. To attract the most vulnerable, a tone which appeals to the young would seem to be most appropriate. However, this may prove incompatible with trying to provide a more holistic approach. Considerable work will be required in this area to provide a service which does not alienate any of the groups to whom the service is targeted.
- 9.5 Links with other organisations are likely to be a part of the national GFA service and are being piloted. Some appropriate links are evident from the profile above. For the most vulnerable, links to existing money advice services and Citizens Advice in particular appear appropriate, as may be links to organisations dealing with the younger adult. All users may benefit from links to the FSA and the Financial Ombudsman Service. For older users, links to specific agencies and third sector organisations dealing with the older individual may be more appropriate.
- 9.6 Whilst our analysis provides some clues as to the likely needs of the most vulnerable groups, much is not yet known about them. Further work will be required to identify:
- Ways of engaging with the most vulnerable, in particular media and messages that are most likely to attract those who need information and guidance on financial matters;
  - Ways of delivering the advice, both organisations and media (phone, internet and face-to-face) that can and will be accessed by the most vulnerable groups;
  - Types of support and information the most vulnerable will need.
- 9.7 Some of this work is already underway through original market research undertaken both before and during the Thoresen pilots for GFA. The profile of the users of the pilots will provide greater depth of information to help shape recommendations for the national GFA service.
- 9.8 Further analysis may be possible using research from other organisations and initial exploration of possibilities has started.