

Resolution Foundation – 14th March 2007 (Thoresen Review of Generic Financial Advice)

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Financial capability is a key issue for our futures, our children's future and our grand children's futures.

People are living longer. As a result it is more important than ever for as many members of the general public as possible to understand the need to think ahead, and to feel confident in taking action to prepare for their futures, from a financial point of view.

Consumers need to be:

- Aware of their financial needs
- Capable of understanding alternative ways of addressing these

- Prepared to make a plan and begin to execute it.

Products and services are becoming more sophisticated and needs more complex – but it is important that people engage with financial services.

People really don't know the best ways to deal with their financial needs – they don't have a clear sense of what their options are, and when presented with options tend to find it too difficult and disengage or make ill-informed decisions.

People don't build up knowledge.

So they don't become confident or demanding customers.

The Government believes that there is a gap in the market for generic advice. By raising financial capability, individuals will have greater knowledge, skills and motivation to manage their finances – which will have lasting benefits to individuals, financial services industry and UK economy.

Access to information and guidance delivers benefits to a range of stakeholders if we embrace it resulting in more confident and knowledgeable customers (particularly in the most vulnerable sectors). This could mean:

- better decisions leading to more self sufficient provision
- less state dependency and poverty in old age
- less crisis intervention leading to less burden on third sector money advice providers
- more knowledgeable customers for the industry who are more likely to buy and more likely to maintain their products.

Hence, the government's long term aspiration to ensure that all adults in the UK have access to high-quality financial advice to help them engage with their financial affairs and make effective decisions about their money.

I passionately believe this and hence I'm delighted to be involved.

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My terms of reference are set out in the Treasury's January document "The Government's long term approach to financial capability".

My objective is to review "how" to deliver a high quality generic financial advice service.

The main elements of my terms of reference are reproduced here.

I don't intend to add much in the way of expansion here, but I would like to say a few words about "Generic Financial Advice" itself.

"Generic Financial Advice" is a difficult expression. People have described it as a contradiction in terms. Generic implies advice

that is capable of being applied to a range of people and situations. Yet in the context of financial advice it has come to mean “advice that is not regulated” even if that advice is highly specific and personalised.

“Advice” has also taken a meaning in financial services that is different from everyday usage: it is a legally defined term that describes a recommendation to buy or sell a specific regulated product to an individual by someone who is authorised by the FSA. Most people use “advice” to describe almost any help, guidance or information they get from any source, particularly from other people.

The Government’s long-term approach to financial capability seeks to distinguish generic financial advice from debt advice, with generic advice being more comprehensive and less specialised than advice focused on those with debt problems.

The review is aware of the issues surrounding the term “Generic Financial Advice”. Nonetheless, at this stage we will

continue to use it to refer to the system of personalised, but unregulated, help and guidance we have been asked to develop. This is for three reasons:

1. Those involved in the debate about this issue understand what this common but imperfect term means. It is established shorthand.
2. Although it goes against the regulatory definition, what we are describing has much more in common with what most people mean by "advice".
3. We need to develop, test and recommend an appealing and intuitive description for this service as part of the review's work on marketing it. We will let that process settle the terminology issue for the future.

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In the time since the announcement by Ed in January the focus has been on establishing the advisory team (The Reference Group) and the team who are going to support me in the delivery of the review.

I'll say a little more about both of these in a few minutes.

But yesterday was an important first step in the process – the publication of our “Call for Evidence” – this marks the beginning of our public activity. The Call for Evidence is all about consultation.

- We are determined the review will be an open process. Involvement breeds commitment.
- Consultation will reflect the practical nature of the task. Policy has been gone over: The Resolution Foundation has engaged widely. HMT are consulting on some issues in their 10 Year Approach Paper. DWP are in this territory around Personal Accounts.

- Ours will get into policy a bit, to make sure we've got all the existing evidence and views. I need my own evidence base to proceed. But it will ask more practical questions, aimed directly at people who run advice services: how do you run your model? Who do you reach with it? Are they the people you designed it for? How did you choose your delivery system? What are your costs? How do you train your people? How much does it cost? How do you manage hand-offs etc.
- It will be a short burst, to get our arms quickly round the data. We'll use up a lot of shoe leather getting out and talking to people.

We've divided the work into 5 workstreams:

- **What's happening, how and to whom?** is about understanding current provision: regulated and unregulated; industry, public and voluntary sectors. It's about putting some flesh on who the target market for the

national service is, and it's about starting to scope what people need.

- There's a key question about targeting versus universality. Undoubtedly, I have to make sure the service is accessible to particularly vulnerable sectors of the population, without discrimination.

But everyone in the UK will be able to use the service. So the key thing is that you have a very clear idea of what you will do with people who use the service, whoever they are, rather than try to make sure only certain groups ever ring you up.

- Second key question here is the boundary with regulated advice, which we'll need to get into great detail.
- **The scope of the service.** Government have asked me to look at a number of particular issues: helping people find the right kind of regulated advice; helping people make choices about Personal Accounts; helping people

with retirement choices and so on. But big initial piece of work thinking through exactly what areas will form the core of the service, which need to be part of it from the start, and which we can look to bring on stream later.

- **Costs and Funding.** My job is to work out how much the best model for this service might cost, and to propose the most appropriate mix of funding, collection system etc.
- Will be guided by principles of fairness, economy and fitness for purpose. Will be doing detailed work on the benefits to Government and the public, and the benefits to the industry.
- Also need to make sure funding model is sustainable over time.
- Concerned that when we talk about costs and who pays, we also talk about benefits and who gains. Need to do the benefits work, but there's a big long-term opportunity

for the industry here to shape something that brings new customers more confidently towards our products and our distribution for the first time. Might be that if I hadn't been asked to do this, the idea might emerge in some form from the FSA distribution review in any case.

- **How can potential users be engaged** is a huge marketing piece, on which we're going to need to get the best help we can. Looking at past social marketing campaigns for ideas, but also talking to people who've built brands with the right trust, integrity and appeal to offer lessons with what we're trying to do here.
- **Governance** is an important part, and includes getting the right distance from Government, the right distance from the industry and so on, and underpinning it with the right legal structures.

The output is a Blueprint for a successful model to deliver quality generic financial advice. "How" not "if".

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The Call for Evidence is the document which sets out the issues on which the Thoresen Review team would particularly welcome evidence, to inform the early stages of the review, and underpin the analysis of options for a national approach to generic financial advice.

The team is seeking to address both strategic and operational issues:

Strategic – In the light of the heightened activity and interest in generic financial advice in the last 2-3 years, what are the issues of principle and policy that need to be resolved? What is the environment within which our approach to generic financial advice needs to operate, including wider government policy, the regulatory framework, the strategic business environment for the industry and broader social goals?

Operational – What factors need to be taken into account in designing and putting in place a national service using a variety of delivery channels including telephone, face-to-face and internet? Do any models exist (whether or not in the field of financial services) and what lessons can be learned from them?

Who should respond?

The review wants to hear from all stakeholders. Consumer and industry bodies will have views reflecting their constituents' interests, but the review also wants to hear from practitioners, researchers and others from a broader background.

The review wants to learn from existing generic financial advice providers, but also from providers of other services that have parallels to offer by virtue of:

- scale;
- focus on particular segments of the community;
- delivery mechanisms;
- approaches to consumer engagement; and

- relationship with other services.

These parallels might arise in regulated or unregulated financial advice, or personal guidance and help in other areas of life. The review also wants to hear from people who have attempted to deliver a similar service but found, for whatever reason, that their model has not worked or has delivered unexpected results. We would also like to invite comments from people and organisations on how they might have worked differently, having learned from their experience.

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Next - the Reference Group.

This group of men and women will provide information, informal advice and in some cases where appropriate practical help to the review team. The Group will also act as a source of

challenge and critique to the approach taken by the review team.

Each individual brings a particular expertise or experience.

Representatives of organisations already delivering services in this area, representatives of other sectors where similar capabilities in dealing with people and information have been developed and others who bring the perspectives of consumers in our target groups.

They are all enthusiastically committed to participating and I am very lucky to have such a strong team advising and guiding me in this important project.

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Next the review team itself.

Its led by Ted Hart. Ted is on secondment from FSA retail policy unit where he has been involved with basic advice and

regulated financial advice more widely, prior to that he spent time at the Treasury and HBOS).

We also have Warren Davis from the FSA and Gill Taylor who is on secondment from DWP.

In addition to the permanent team we have a number of others from the industry and elsewhere who are supporting me as we set out to find the best way forward in this critical area.

It is an energetic and passionate team. They are a pleasure to work with.

The discussion groups which you are about to participate in cover a number of key areas where we need your input. I'd like to thank the Resolution Foundation for giving me the opportunity to get our consultation process off to such a good start.

I'm looking forward to moving around the groups to listen to the debate as it develops – and then to hearing the feedback later this morning.