



# **Thoresen Review of Generic Financial Advice: Call for Evidence**

## **Response from Fair Money**

### **1. Who are fair money?**

The four directors of Fair Money were members of the FSA's Ethics Committee. Following the demise of the committee, the four set up Fair Money in June 2004 with the express intention of designing, developing and delivering fairer financial services and products, particularly to vulnerable and financially excluded members of society.

Two of Fair Money's directors, Peter Bennett and Robin Keyte, were part of the FSSC working group that put together the Occupational Standards for Generic Financial Advice

Fair Money believe that financial capability must be at the heart of any initiative to improve social and financial inclusion as well as health and other related issues within the UK. Furthermore we believe that the financial services industry itself has too much of a vested interest in keeping things well within their control to come up with truly creative solutions.

Having said that, Fair Money recognise the importance of and welcome many of the initiatives set out in this review.

Fair Money are presently working in conjunction with two London sub-regions to improve the financial capability of a group of people living in sub-standard housing in East and West London.

### **2. Introduction.**

The introduction of Generic Financial Advice has the potential to be of great benefit to many people in the UK and especially the more vulnerable.

It is clear that existing services such as free-to-client money advice or debt counselling partially answer these questions by reference to a pressing need or crisis in the customer's life. In contrast, generic financial advice should be focused on building financial capability for the medium and long-term benefit of the customer: it is an investment and an evolutionary/developmental process, rather than a recovery strategy.

The provision of generic financial advice, when this service has not been provided on any significant scale before, is an intervention in the market for financial services. Potentially, this intervention changes the way the market works, especially for people currently excluded from advice by economic factors. Indeed, the aim of delivering generic financial advice might be to correct some of the less desirable features of the market.

Two years after the endowment mis-selling scandal broke, the same material was still teaching new recruits that endowment mortgages were the best choice for most mortgage clients. The industry seems beset by fashions for particular product types. How will a generic financial advice service avoid getting caught up in all the damaging hype that the industry generates? How can it avoid the internal view that financial products are good for people and should be sold even when the customer does not agree?

The risk profile of many financial products is changing rapidly as speculative trading intensifies and the fundamentals are undermined. The consumer-oriented financial websites change their advice and best buys on a weekly basis. How are customers going to be given generic advice worth having when events are outstripping the knowledge and training of most of existing advisers?

In a recent article written by Tom Uttley in the Daily Mail he says "A steel shutter slams down on my mind when anyone mentions ISAs, TESSAs, endowments or anything else to do with money – and I've always come away from the bank manager's office having meekly signed up to a whole range of products that I don't understand and I don't want".

If the views above represent those of the majority of the UK population and particularly the more financially excluded, then what is it that customers need to know in order to better pursue their interests in interacting with FS companies and financial products? What sort of non-product specific advice would actually help them in the medium term?

There are some rules of thumb like "don't ever buy into a financial product you can't afford to get out of, no matter how good it seems".

There are some ruses like how to avoid paying retail overheads on basic financial products.

There are approaches to dealing with financial salesmen and defending against pressure sales

There are some financial planning approaches but these are immensely difficult and complex.

There are ways of “reading” advertisements for financial products that help counteract the huge pressure this spend creates to buy products that in too many cases seriously impoverish people

What is needed for a generic financial advice service is a proper ethical basis and a proper evaluation of the medium term effect it has for customers. Only customers can judge whether a service has advanced their agenda and their ability to pursue it. An evaluation has to engage the real options open to customers and not merely the palette of existing financial products. We have to get beyond assuming that bank accounts are a good thing and start looking at the services that people need.

In a recent presentation, Jim Fearnley of Money Advice Trust said “telephone advice is limited by not being able to see the context someone is talking from”. Fair Money’s experience mirrors this position precisely and has exposed many of the problems in trying to assess what is being said and what is not being said. Very few, if any, customers are going to tell someone about deep-seated problems just because they ask over the phone and no customer with deep seated problems is going to be able to explain the context properly without prompting and exploration. For this reason alone Fair Money believe a national telephone help line, whilst being suggested with the truest intentions, will, through the law of unintended consequences, result in many people being given completely incorrect advice. And no one would ever know.

It has been reported in many places that for products such as credit cards, confusion marketing is a reality and it is essentially impossible for customers to compare deals even if they had the aptitude and the patience. What our clients require for generic financial advice in our experience is a simple framework for understanding key products in like for like terms, with the big factors brought out clearly. So until recently if you did not include penalty terms in your assessment of card costs you would be misled. And many of the important factors are not accessible via company literature. For instance - Which is the only UK bank that will not accept an “arrangement” if you are unable to repay a loan? Is this important? – it can be almost life and death and, if you don’t know already, the name of this bank will surprise you.

It is obvious to Fair Money that if the major financial institutions wanted to play their part in building financial capability they could easily publish frameworks to make products comparable in their most important features. Fair Money’s notion of what customers need to find out is that such obfuscation is indeed an indicator of the attitude to them of the institutions concerned: is there another rational conclusion?

To return to the notion of an intervention in the market, the market is difficult especially for lower income customers because:

The severe distortion introduced by industry distribution channels means that the right products are not available or not marketed on the right terms, witness stake holder pensions and basic bank accounts.

Adequate generic financial advice has to deal with this situation or give bad advice. Our assessment is that the likelihood of an intervention that does not benefit customers is high.

## **2. Strategic issues**

The specific responses below are limited to the Fair Money experience which even though it is limited, recent and necessarily undigested comes from an angle that is poorly represented in official circles.

### **2.1 What is happening today**

- AS1. The fair Money model is based on the occupational standards laid down for Generic Financial Advice but goes further particularly in respect of the competences required of our Financial Capability Coaches whose first and overriding concern is to bring the capabilities of their customers up to the point where they are capable of making financial decisions for themselves. Financing for the project is presently coming from Public sector (three London boroughs) and the voluntary sector (London Rebuilding Society). It is hoped in future to raise more funds from these two sectors and the private sector.
- AS2. Fair Money is a company limited by guarantee. It has four directors one of whom is acting in the role of a Financial Capability Coach for West London boroughs. There is a very robust Training and Competence Scheme in place and the company carries £1m of Professional Indemnity Cover. There are also some new angles being taken in respect of the development and use of software which is truly being developed to help the people involved rather than support processes that can quite frankly get in the way of helping people.

Fair Money provide a support network for their coaches because they recognise that the support coaches give to clients can only be as good in the medium term as the support they get themselves. To continue to actually care about clients circumstances and to empathise with the terrible situation clients are in, through no fault of their own, requires a proper support organisation, both peer support and supervisor support. This is another thing the industry gets systematically wrong in treating advice as a technical issue.

Whilst the size of the initiative is quite small at the moment this to enable Fair Money to manage the risk involved. Eight people attended the first Induction Course and there will in all probability be four competent Financial Capability

Coaches out of this initial tranche. The project is being run with a view to scaling up to the point where by 2010 the whole country can be covered.

- AS3. As mentioned in the introductory paragraphs, Fair Money believe what is really needed is a methodology through which the financial capability of people can be improved to the point where they are able to take decisions for themselves rather than having to act on the advice of someone else. With this in mind Fair Money would like to see the name changed from Generic Financial Advice to Generic Financial Capability.
- AS5. Fair Money believe that whilst Resolution Foundation has come up with a great deal of research this has been used in a way that supports their original hypotheses rather than being used in a neutral manner to consider other alternatives. Therefore great care should be taken when looking into the conclusions drawn from this research.
- AS6. Fair Money believe a new structure is required and one not built on existing foundations by existing financial service companies. Although these companies would, of course, be welcome to join if they were willing to align their values in relation to this project with those of Fair Money.

Callum McCarthy is on record as saying that the way financial products are distributed in the UK is in the interest of neither providers nor consumers. Fair Money interprets this to mean that many financial; services companies are incapable for whatever reason of pursuing the interest of their customers. So it is at least possible that a generic financial advice service developed by the industry will end up failing to serve the interests of the customer. We might expect for instance that such advice would need to deal with how to avoid the problems caused by the current distribution mechanisms. This would include the telephone type advice seen as a major part of Resolution Foundation's suggested solution.

## 2.2 Scope

- BS1. Generic Financial Advice should be available to everyone however the means for paying for it will in all probability need to be different. As far as the vulnerable and low paid people are concerned this could be funded in the way Fair Money's activities are being funded at the moment. See above.
- BS3. Fair Money makes use of a whole host of referral bodies, like Home Improvement Agencies, Social Services, Age Concern, Help the Aged. These can be expanded to include other such organisations.
- BS4. The range of relevant knowledge that an adviser should have is huge, beyond anything that exists at present. This follows the obvious observation that

when people have little or no disposable income, everything they do affects everything else. Certainly we find the following list to be required background:

- The benefits system both welfare benefits and housing benefits
- The implications of needing long term care
- Housing regulations and the implications of disrepair
- Financial products such as mortgages, insurance, life insurance, savings
- Employment issues and the workings of Jobcentres
- Inheritance and wills
- How to interact with the health service and social services
- Grants and loans for education
- Shopping strategies for reducing outgoings

Some of the problems our clients face are subtle and extremely complex, far worse than clients with significant disposable incomes. We would expect, in all seriousness fully qualified industry professionals to struggle to get advice right, if only because of the number of factors that they are not used to dealing with.

From this perspective we feel the Resolution Foundation's main suggestion for a national help line can only go a small way to helping individuals truly increase their financial capabilities to the point where it is they who are making the decisions rather than taking advice. How will telephone advisers learn the facts about their clients that they don't know to ask about and clients don't know to tell them about?

Let's take a key example that highlights a number of issues. Should a given customer pay for payment protection insurance on his mortgage?

- First we need to acknowledge that the client can easily lose his home either way – by paying for insurance he cannot afford and by not having insurance when he is made redundant.
- Next we need to admit that most of these products are so overpriced as to make the above risk very real, and that the chances of successfully claiming against a policy are woefully low.
- Then we need to acknowledge that the 39 weeks before the DWP will pick up mortgage interest payments for those on means-tested benefits is based on the notion that people will have payment protection insurance, even if it doesn't pay out.
- Next we need to step back and look at the customer's entire financial circumstance before we can understand the risk of taking out or not taking out a policy.
- Then we need to see if there is somewhere or somehow a product that could be recommended if the customer wanted to proceed – but then we would have overstepped "generic" advice.

What we want to draw attention to is that it is far too easy to give the impression that generically, financial products are a solution, even if this impression is at the level of confidence and attitude of the adviser. This impression can itself be bad advice even before anything has been said. We know very, very few products are tailored to low income customers and we know that many products actually bought turn out to be unsuitable. And yet we cannot imagine a generic financial advice service not recommending financial solutions.

- BS5. The concept of where Generic Financial Advice starts and stops can be most easily overcome if we can get away from the concept of someone giving advice to someone else. If instead we can focus on the subject of capability from the position that a person is capable when they feel able to make decisions for themselves the necessity for advice is made null and void.
- BS6. The number and range of organisations from where people could be referred is limitless, it includes health, religion, social, rehabilitation of offenders and on and on.
- BS7. If the outcome in BS5 can be achieved then the people would decide for themselves where they would like to go.
- BS8. The occupational standards form a good base for the qualifications required although Fair Money believe a robust T & C Scheme including KPIs and a robust supervisory regime are necessary.

Whilst intuitively it would seem that the financial services would be a good place for recruitment it would be vital that anyone recruited was not immersed in or motivated by a sales and or target type culture.

- BS9. If the outcome in BS5 can be achieved then this matter does not arise unless someone oversteps the mark and gives advice rather than allowing the customer to make the decision.
- Hopefully it will shift the balance of power away from them and more towards the customers who will be more in control of what they are doing.

## **2.3 Cost and funding**

- CS1. Yes it should be free at point of delivery for vulnerable and low earners.
- CS2. No.
- CS3. If capability can become the core then this is where the real wins can come from. Improvements will be able to be seen in the take up of products the increased number of financially included, decreases in the number of people requiring care from the state, decrease in the number of people in hospitals,

decreasing crime figures, reduction in people getting into financial difficulties and many others.

## **2.4 Engagement.**

- DS1. This can only happen on the terms of the customers themselves and is perhaps the most compelling reason why Fair Money believes the coaching type approach they are taking can be successful.
- DS2. Fair Money's approach is based on numerous successful interventions using the coaching approach and we would be pleased to share these. The single thing that makes them successful is that the people know why they are doing things and have decided to take the actions themselves.
- DS3. Fair Money is pretty good.
- DS4. Support from consumer bodies and TV programmes is vital. There must be a distance between what is being done and the financial services industry itself.

There are still customers who are prepared to trust the big high street brands. Anecdotally such customers get very poor value so would have to be classed as needing generic advice.

The other group of customers have had poor experience of service from financial institutions and have become cynical or partially excluded from mainstream services. These people can only be engaged by going to an extreme position of independence and customer advocacy. Anything that links them to the industry will be exposed by the press and will mean that customers will only use such a service on their own terms. The word independent does not have a good track record in the industry.

As an example take a client who had failed to receive compensation for an endowment shortfall. The insurance company said the company that sold the policy was small, independent and nothing to do with them. The company that sold the policy said that before 1988 they were not required to keep records and were unable to verify her claim that the policy had been mis-sold. That is what independence means in practice: how can engagement happen?

Typically industry sales cultures describe customers as punters or worse. Engagement must mean building a relationship where the customer is respected. Fair Money are building a culture where we believe that the customer has the answer if they can be asked questions that unlock their capability and confidence. We find the idea that an industry expert has the answers the primary block to finding good solutions to a customer's issues.

- DS6. A dramatic change because the people themselves will be in control rather than the financial services companies.

## **2.5 Governance arrangements.**

A good governance mechanism could go a long way to making this initiative a successful intervention in the market. Every year Which? magazine do a mystery shopping exercise for financial products and every year their report is greeted with howls of protest. So a governance mechanism that made public the effect on users of the service of advice given could be an excellent mechanism for a wider debunking of financial services myths about the value of products

A brief look at the history of rules based regulation in the financial services industry is in itself indictment enough of that approach. The move to principles based regulation is very welcome. The more hands-off and less rules-bound GFA can be then so much the better. If GFA does not come within the power of the financial services companies then the need for over-bearing regulation should be diminished. If the whole scheme is assessed by customers in terms of customer benefit then it should become clear whether the regulation is acting to empower customers or to restrict the ways in which they can be coached.

## **3. Operational issues.**

Many of these questions have been answered fully in Section 2 “ Strategic issues” and so are kept to a minimum under this section.

### **3.1 What is happening today.**

- AO1 – AO4 See above
- AO5. A completely different approach is taken to “knowing the customer”. Rather than being restricted by the type of Fact Find prevalent throughout the industry the Financial Capability Coaches really get to know their customers and where they are at, particularly in their understanding of how financial issues are affecting their overall lives. This makes for a much more satisfactory relationship between the coach and the customer. All this information is recorded and signed off by both parties.

Particular attention is paid to changes in the customer’s financial capability: arguably if no improvement in customer capability can be demonstrated then public funds have not been properly used.

### **3.2 Scope.**

- BO1. In terms of this pilot project the target market is people living in category one housing. That is housing where there are health and safety issues and the

people living in the houses are elderly or vulnerable in some other way.  
Targeting is getting better.

- BO2. This is a very new service and to date we have around eight customers.
- BO3. To date no-one has been turned away as we will not take on too much.
- BO4. See BO1 above.
- BO5. These are just taking shape and the boroughs are coming up with different referral methods. It is difficult to say at the moment which will prove to be the best.
- BO6. A great deal of information is captured but as mentioned above the most useful refers to the improvement in financial capability.
- BO7. A robust supervisory and accreditation system is in place.
- BO8. Professional Indemnity cover of £1m is in place although hopefully we will never use it because the coaches do not give advice.
- BO9. This is very extensive commencing with an eight day induction programme and continuing through personal and team development activities.
- BO10. Most are on salaries paid for by their sponsoring organisation and one is paid on an amount per visit.
- BO11. Varied. All bar one have been directly employed in the financial services in some capacity or other and it is true to say none of them were impressed with what they experienced. None came directly from financial services to join this pilot project.
- BO12. Regular meetings.

### **3.3 Cost and funding/Engagement.**

In general terms most of this is above.

The request for details of the business background to Fair Money makes us uncomfortable. While we want to support this initiative completely and to believe that the parties in it are acting in good faith to us and our clients, we cannot do anything that might jeopardise our service to our clients until we have assessed the risk. Unfortunately we cannot simply assume that financial services companies act in good faith towards their critics and we recognise that our stance is deeply critical of the mainstream service provision. Our values are simply that our clients come first.

We are happy to discuss the detail, when we know more about who is on the review team and how the information will be used in building a successful model. If there are any potential partners amongst the group who would be willing to fund the next stage of its development we would also welcome the opportunity to speak to them as well.

**Fair Money believe that any solution arrived at under the terms of the Review may already have been compromised by the statement that a successful model will be one that brings benefits to society and the industry. We believe a solution should be sought that brings benefits to society and especially the more disadvantaged members. If this happens, then in all likelihood the industry will benefit but this should be a secondary objective.**