   

CLOSING THE ADVICE GAP:

Providing financial advice to people on low incomes

Resolution Foundation

About the Resolution Foundation

The Resolution Foundation is a new research and policy organisation, which is currently focusing on how people on low incomes can access and use the financial services system. We aim to provide new thinking and to deliver change by actively engaging in the policy-making process. Not-for-profit and impartial, we are committed to producing the highest quality socio-economic research and practical proposals for action which are capable of being implemented.

Acknowledgements

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Written by Patrick South

Foreword

The Resolution Foundation was set up in October last year. Its first major project is to investigate the feasibility of establishing a new national financial advice resource, funded by a public-private partnership, to provide financial advice targeted at people on low incomes. This report is the culmination of the initial phase of the Foundation's work. It is based on detailed analysis of the most authoritative research data available and draws on rigorous business and financial modelling to identify fully-costed options for delivering such a resource.

The report shows that there are 12 million people in the UK who are on below median incomes and who receive less than 20 per cent of their income in welfare benefits, with a further 3 million elderly people also in this income bracket who do not receive means-tested benefits. It provides evidence that a significant proportion of this group are currently making poor financial choices, leaving them worse off and significantly exposed to future risk as a result.

The report also shows that, by drawing on technology and harnessing learning from existing services, the financial advice they need could be provided in high volumes and at a reasonable cost. Most of the time, people do not need a lengthy consultation with a financial adviser. They simply require a short conversation with a fellow human being who understands their needs, can answer their questions and is able to advise, objectively, on the pros and cons of the options available to them.

The Foundation is now keen to sponsor a serious discussion between interested parties in government, the financial services industry and consumer and voluntary groups about how to take this work forward. This report therefore marks the beginning of a process of consultation and we are keen to hear views on all the issues it raises, especially in relation to the service delivery options identified. We are also keen to open up the important debate about how such a service could be funded and the respective roles of the Government and the financial services industry in supporting it.

I am grateful to all those who have helped with the report including the Financial Services Authority, the Future Foundation and, in particular, the consultancy firm McKinsey & Company for their pro bono support in developing the service delivery options. I hope you find it interesting and that you will be able to engage in our consultation process.

Clive Cowdery
Chair of the Board of Trustees




Introduction

The financial health of people in the UK is currently the subject of significant political attention. Much work has taken place in recent years to make financial products more accessible and to improve the financial literacy of consumers. Policy initiatives have mainly concentrated on three areas.

- The financial inclusion agenda focuses on people on low incomes who are currently often denied access to basic financial services such as bank accounts and affordable credit. In January 2005, the Government established the Financial Inclusion Task Force, backed by a fund of £120 million, to drive forward progress in this area.[1]
- The broader concept of financial capability has received significant attention recently with the publication of the Financial Service Authority's strategy for improving financial capability.[2] This sets out a seven point plan which includes teaching personal financial education in schools, using seminars to deliver financial information in the workplace and developing online and other communications tools to help people manage their finances.
- In response to the growing problem of over-indebtedness and evidence of a shortage in the supply of services providing debt advice, the Government published an action plan to tackle over-indebtedness in July 2004.[3] The Government and the financial services industry are working to increase capacity among existing services and expanding the supply of face-to-face debt advice is a priority area of work for the Financial Inclusion Task Force.

However, even with better products, more literate consumers and progress in improving services for the most excluded, there is still a missing piece to the jigsaw; access to impartial, 'generic' financial advice.[4]

As people are being expected to take more personal responsibility for their financial affairs, it is essential that they have the means to make informed decisions. Pension reform, for example, which is likely to leave people with new choices to make in planning for their retirement, will only succeed if people are able to understand those choices and make the right decisions.

This is particularly true for people on low to moderate incomes who currently have little access to impartial financial advice. Their advice needs are not catered for by the financial services industry which packages up advice with product sales or offers it at commercial rates via independent financial advisers (IFAs). And, as they are not reliant on benefits, they are unlikely to be served by services aimed at the poorest and most vulnerable.

In the past, financial advice may have been available to this group locally through trusting relationships with banks and building societies on the high street or from insurance agents serving local communities. The community finance sector is currently flourishing, with credit unions and community development finance institutions extending access to affordable credit. The availability of remedial advice for those in crisis has also increased significantly in recent years, although demand for these services still outstrips supply.

However, the lack of easily accessible, generic financial advice for this income group has been exacerbated as community-style services provided by the industry have faded away as it has sought to improve competitiveness and value for money for customers. In today's financial economy, which relies on informed, self-reliant consumers making the right choices in a competitive market place, a solution is needed to this issue which recognises the role of government and industry alike.

The Resolution Foundation is therefore exploring whether a new national resource could be established, funded through a public-private partnership, to provide generic financial advice targeted at people on low incomes. This is not a new idea. Some commentators and consumer groups have long argued the case for such a resource[5] and the provision of generic financial advice is a key part of the FSA's strategy to improve financial capability.[6] However, this element of the strategy has not yet been delivered.

Our aim is to investigate this issue thoroughly and to research a service delivery framework for this resource that commands support and is capable of being implemented. It is important to stress that the Foundation does not anticipate a role in delivering the service itself; our aim is to persuade the Government and the financial services industry to provide the necessary support and financial backing to make it a reality.

1 HM Treasury Press Notice, 28 January 2005
2 *Financial capability in the UK: Delivering change;* FSA, 2006
3 *Tackling over-indebtedness;* DTI/DWP, July 2004
4 Generic advice is information, advice and guidance that does not involve recommending a course of action in relation to specific providers or products. It is defined by the FSA as 'Services and tools that use information about individuals' circumstances to help them to identify and understand their financial needs and to plan their finances. Generic advice helps consumers to identify: (a) choice and possible priorities for action which are appropriate to their needs; (b) how to take the next steps in addressing their priorities; and (c) how to access other relevant sources of information and advice.' [*Building financial capability in the UK: the role of advice*, FSA, July 2004]
5 For example Which? published proposals for a National Financial Advice Network in May 2002.
6 Access to generic financial advice is one of seven key elements in the strategy. The Foundation is working with the FSA to explore the potential for initiatives in this area.

Research methodology

This report draws together the findings from two key strands of research and analysis.

Understanding our 'target group'

We wanted to develop a clearer understanding of the demographic and financial characteristics of our 'target group' of people on low to moderate incomes, their access to financial products and advice, attitudes to decision-making and overall financial capability. We therefore commissioned the following research:

- Quantitative analysis using data from the British Household Panel Survey (BHPS) to identify the size, composition and characteristics of the target group.[7]
- 15 in-depth interviews with representatives from the group to create detailed case studies to further understanding of their attitudes to money and financial decision-making patterns.
- Analysis of the FSA's 'baseline' survey of financial capability, which provides a rich source of data on access to financial products and advice and enables us to compare outcomes for the target group with the population at large.[8]

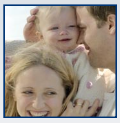
Developing service delivery options

Our central goal is to develop practical proposals for delivering a national financial advice resource targeted at this income group. We have examined the key building blocks for developing a service delivery framework and arrived at a set of fully-costed delivery options. In addition to extensive business analysis and financial modelling, this work was based on:

- A telephone survey of 400 people from the target group which included questions about their financial situation, their advice needs, awareness and use of existing services and preferences for different types and styles of advice and how it should be provided.
- Five focus groups with representatives from the target group to test their attitudes to the overall service proposition and different advice types, styles and channels for delivering it.
- Interviews with established advice providers to understand the existing advice landscape and their experience of current and previous initiatives.
- Interviews with IFAs to explore their understanding of the advice needs of this income group and test ideas about the type and style of advice that could be provided and how it could be delivered.

In addition, we have drawn on a wide range of relevant research, reports and evaluations already published.

[7] The BHPS is an annual survey of more than 5,000 households and is widely recognised as one of the most reliable data sources available on the UK population. As the households are interviewed on a repeat basis, it can be used to undertake 'longitudinal' analysis of data over time.
[8] *Financial capability in the UK: Establishing a baseline;* FSA, 2006

Key findings

The research we have undertaken for this report has provided a much clearer insight into our target group and the options for delivering a new national financial advice resource to meet their advice needs. The key findings from this research are set out below.

The target group

- 12 million adults in the UK are on below median incomes and receive no more than 20 per cent of their income from welfare benefits. A further 3 million elderly people are on below median incomes and do not receive means-tested benefits.
- The majority of the group are in work, with only 3 per cent unemployed. 16 per cent of those in work are self-employed, a significantly higher proportion than those on higher incomes. People in the group are also more likely than high earners to work for small employers.
- The majority of the group hold basic financial products such as current accounts. However, they often lack key long term and risk-mitigation products; only 40 per cent have life insurance and they are only half as likely as those on higher incomes to have products such as payment protection insurance.
- People in the target group are often more aware of the financial challenges they face than the rest of the population; nearly half of those among the older clusters in the group are concerned about their income in retirement compared to only a third of the population as a whole over the age of 40.
- However, they are less likely to act on this; only around half are members of an available employer's pension scheme compared to over 80 per cent of those on higher incomes. They are also less likely to have a personal pension.
- Only 42 per cent of the target group say that they make savings from their income, compared to 55 per cent of those on higher incomes. The amount they save is also lower; for example, middle-aged workers in the group only save around two-thirds as much as the national average.
- Over three-quarters of the group are homeowners. Nearly 90 per cent of them have had to make cutbacks as a result of difficulties in meeting their housing payments, a higher proportion than both higher income earners and those on benefits.
- Broadly speaking, the financial capability of the target group mirrors that of the population at large. However, only 25 per cent have considered making provision for an unexpected drop in income, compared to 35 per cent of those on higher incomes.
- The majority of the group is in a reasonable state of financial health. However, nearly a quarter display 'chronic' signs of financial stress, including high numbers of families and middle-aged people. One in ten are facing 'acute' difficulties and may be reaching crisis point.

Service delivery options

- There is a high need and stated demand for a national financial advice resource; 60 per cent of people interviewed said that they would be interested in receiving advice and 40 per cent said they would use such a service at least once a year.
- People identified a range of different advice needs including product-related advice, advice on financial management, advice at different life-stages and crisis-related advice. This advice can be provided on a generic basis and does not have to be regulated.
- Feedback from our focus groups indicates that advice should be simple, personalised and independent, and that it should be provided in short sessions; 80 per cent of those interviewed said they would be happy with advice sessions of 10-15 minutes.
- Advice could be delivered in high volumes at low cost via the telephone. 70 per cent of people interviewed would prefer to use a telephone-based service or expressed no preference. Of the remaining 30 per cent who would prefer face-to-face advice, two-thirds would still use a telephone service. 10 per cent of people said they would only use face-to-face advice.
- A new financial advice resource would face a significant marketing challenge to promote take-up and position itself clearly alongside existing services. A new brand and significant marketing effort would therefore be required.
- A new, independent organisation would be needed to oversee the resource. Provided its independence is maintained, 80 per cent of people interviewed would support a public-private partnership backed by the Government and the financial services industry.
- Depending on its reach, annual running costs for the resource could vary from £10-£15 million for an Internet-based service, to £90-£110 million for a comprehensive telephone and face-to-face service. A telephone-based service, supported by web-based information, could be delivered at an annual cost of £25-£35 million.

The target group

Before researching the options for delivering a national financial advice resource, we wanted to find out more about the size, composition and financial characteristics of our target group. Initial research, based on analysis of the BHPS, was published in February 2006.[9] Since then, we have commissioned further analysis of the BHPS and of the FSA's baseline survey of financial capability. This has helped us build a much clearer understanding of the make-up and financial characteristics of our target group.

Defining the target group

To understand more about the target group, we first needed to define it by establishing benchmarks, above which people's income enables them to access advice from the financial services industry, and below which people can access services aimed at the poorest and most vulnerable.

It is not possible to be precise about the income below which people become unprofitable for the financial services industry to advise; this varies between products. For the purposes of our research, we have used median income as the upper benchmark. Median income is currently £11,747 for individuals and £22,548 for households.

Defining when people become independent of state support is made more difficult by the fact that all income groups are entitled to some welfare payments, for example Child Benefit. For our research, we have therefore defined people as being independent of state support if they receive no more than 20 per cent of their income in welfare payments.

A further definitional issue is raised by elderly people, many of whom receive more than 20 per cent of their pension income via the State. Since our initial research was published in February, we have investigated this issue further and arrived at a new methodology which defines elderly people as being independent of state support if they are not receiving means-tested benefits.[10]

Finally, our definition includes both individuals and households. This ensures that people on low incomes who are living within households with total incomes above the median are included in our analysis.

The size and composition of the target group

As our previous research set out, analysis of the BHPS shows that approximately 12 million adults in the UK are on below median incomes and receive less than 20 per cent of their income in welfare benefits. Using our new methodology for defining when elderly people become independent of state support adds a further 3 million people to the group.

Significant numbers of people move in and out of the group over time, as their income changes. Analysis of the BHPS reveals that 50 per cent of people within the target group were not in it 10 years ago. This leaves around 7.5 million people, who were in the target group a decade ago, still in it today.

Young people in particular, many of whom are students or starting out on their careers, will move out of the group as their income rises; the data suggests that around 75 per cent of them will have moved out of the target group a decade later. However, it is important to note that, as well as people moving beyond the upper threshold as their income increases, they may also fall below the lower threshold if their income decreases. Higher earners may also move into the group if their income falls, as may those on benefits if their income increases.

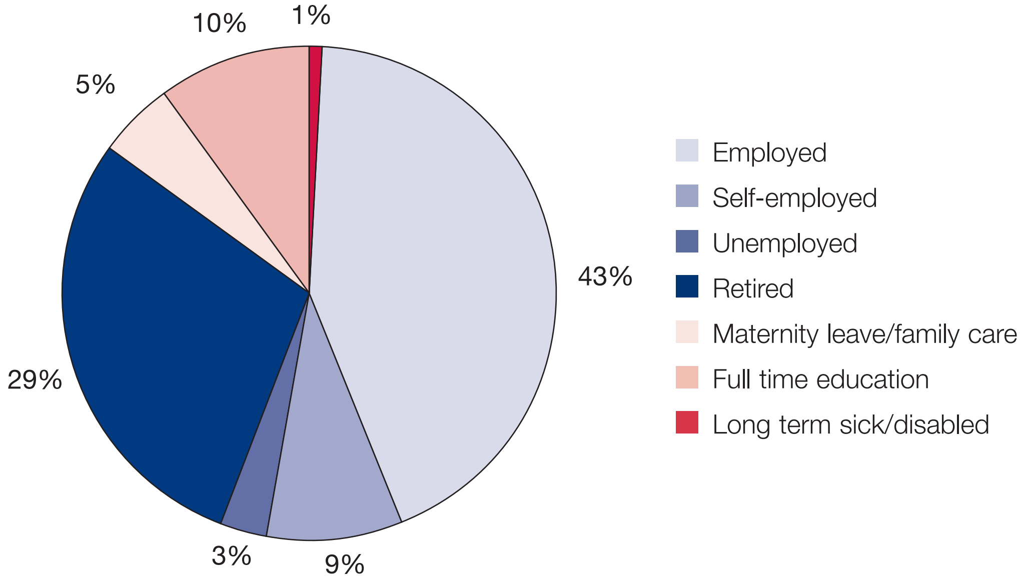
Other research suggests that much of this mobility is likely to take place at the fringes of the group. This is important in assessing the impact of financial decisions, particularly at key life stages.

In terms of gender, parenthood, educational attainment and employment, the target group breaks down as follows:

- At 57 per cent, the proportion of women in the group is higher than is the case among the rest of the population.
- Around a third of the target group have dependent children, a lower proportion than among the rest of the population. The proportion of lone parents is 4 per cent. This is higher than among those on higher incomes but less than among those who are more reliant on benefits.
- Educational attainment within the group is similar to the rest of the population, with a slightly higher proportion qualified to 'A' or 'O' level (or equivalent), and slightly less having reached degree level.
- 52 per cent of the group are in employment, with unemployment levels, at 3 per cent, similar to the rest of the population. 16 per cent of those in work are self-employed, a significantly higher proportion than those on higher incomes. The target group are also much more likely to work for small employers than higher income earners. Economic activity within the group is broken down in more detail in Chart 1.

[9] *Living in the advice gap: An investigation into the Resolution Foundation's target group;* Alliance for Health and the Future, 2006
[10] Elderly people are defined as being independent of state support unless they receive any of the following means-tested benefits: Pension Credit, Income Support, Incapacity Benefit, Housing Benefit, Council Tax Benefit, Job Seekers Allowance, Disabled Persons Tax Credit or Disability Living Allowance.

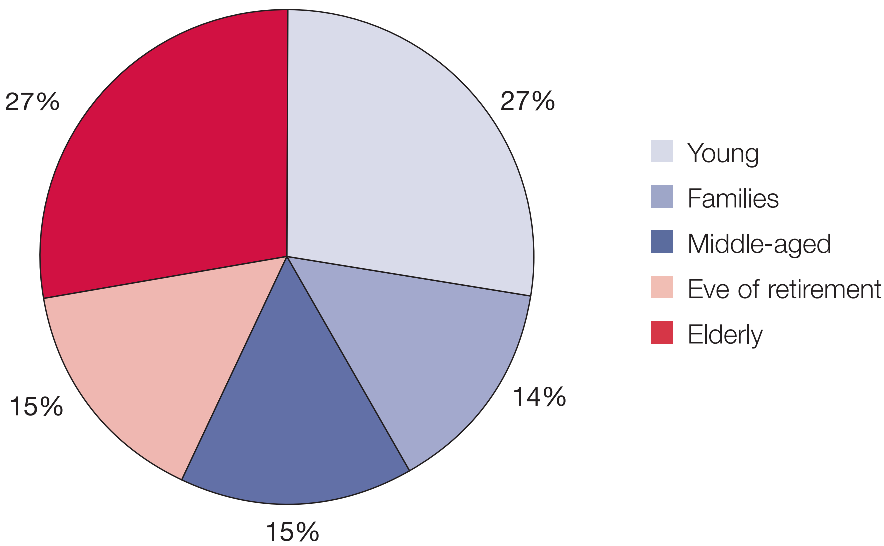
Chart 1: Economic activity



Source: BHPS/Future Foundation

To build up a more detailed picture, the research also included 'cluster analysis' which broke the target group down into five key life stage clusters: young people, families, middle-aged people, those on the eve of retirement and elderly people. The clusters are broken down in Chart 2.[11]

Chart 2: Target group clusters



Source: BHPS/Future Foundation

[11] This differs from the proportions identified in the report published in February, which did not include the 3 million elderly people identified using the new methodology for defining when they become independent of state support

Financial characteristics

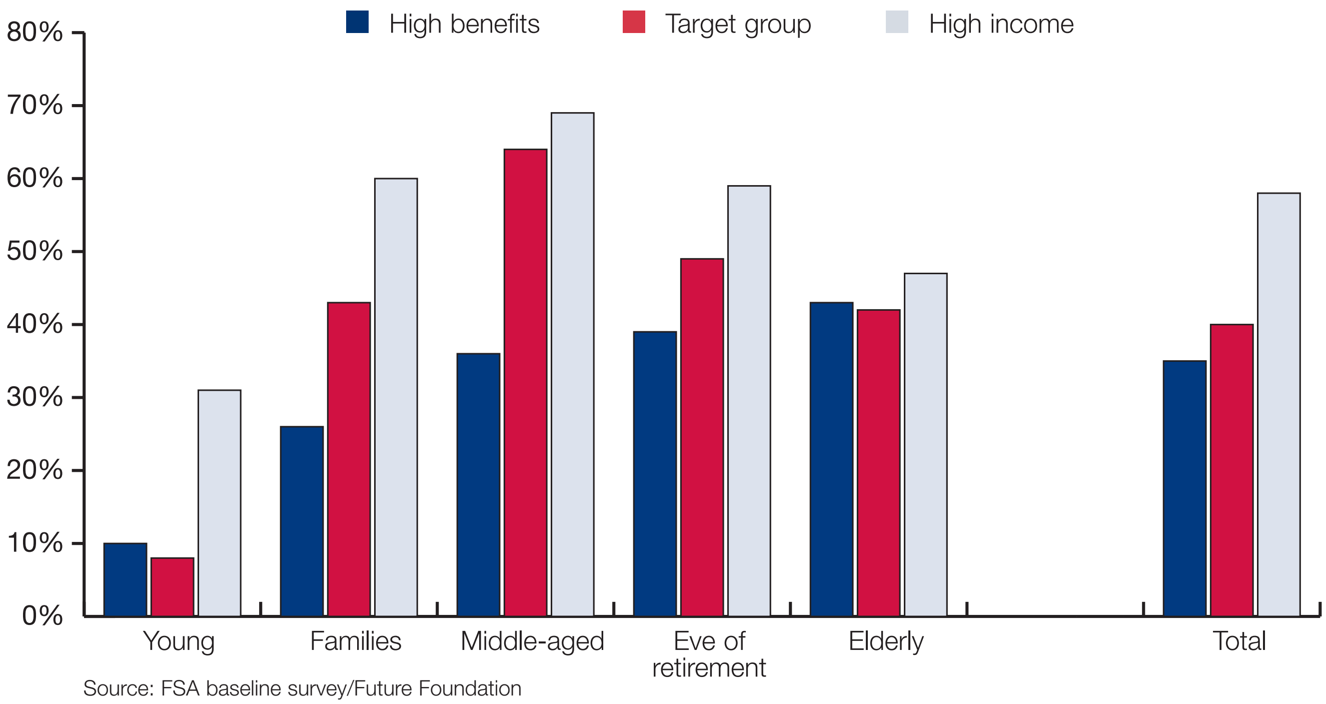
Overall, 34 per cent of the target group say they are living comfortably and 40 per cent say they are 'doing alright', a similar proportion to those on higher incomes.[12] The financial characteristics of the target group are described in more detail below.

Financial products

In common with most of the rest of the population, the vast majority of the target group hold basic financial products. For example, 90 per cent of the group have a current account. A high proportion have savings products; 63 per cent have a savings account and 32 per cent have cash ISAs. They are also likely to hold basic insurance products; over half the group own contents, buildings and motor insurance.

However, the target group are much less likely than those on higher incomes to hold long term insurance and risk mitigation products. Only 40 per cent of the group say they have life insurance, compared to 58 per cent of higher earners, and only around half as many have critical illness, income protection or payment protection insurance. This leaves people in the target group more at risk of being exposed should they suffer an unexpected loss of income or change in their circumstances.[13]

Chart 3: Life insurance holdings



Source: FSA baseline survey/Future Foundation

Savings

Only 42 per cent of the group make savings from their incomes compared to 55 per cent of higher income earners. The amount they save is also lower than the rest of the population among all the cluster groups, with the greatest difference among the middle-aged cluster who only save around two-thirds as much as the national average; £124 a month compared to £179 a month.

The analysis also reveals that savings among the target group are much more likely to be for short term expenditure than for the long term. Holidays are the most common reason for saving among all the cluster groups, significantly outstripping saving for retirement, even among those on the eve of retiring.

Pensions

The target group are much more likely to be concerned about their income in retirement than the rest of the population. 48 per cent of those in the middle-aged, eve of retirement and elderly clusters say they 'worry a lot' about not having enough income in retirement, compared to a third of the population as a whole aged over the age of 40.

Yet, the proportion of the group who are members of an available employer's pension scheme is significantly lower than those on higher incomes. As Chart 4 shows, 53 per cent of the target group are members of an available employer's scheme compared to 81 per cent of those on higher incomes.[14]

[12] Findings based on analysis of the BHPS
[13] Findings based on analysis of the FSA baseline survey
[14] Findings based on analysis of the BHPS

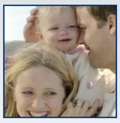
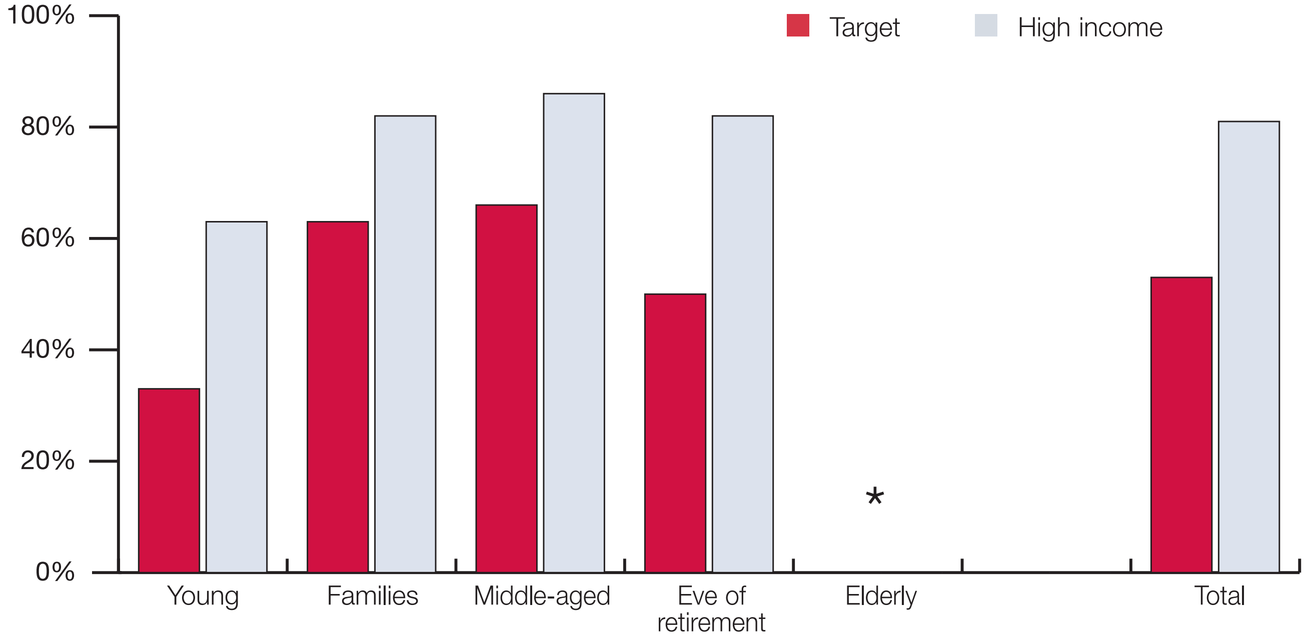



Chart 4: Membership of available employer's pension scheme



Source: BHPS/Future Foundation

* = Sample size too small to analyse

The target group are also less likely to be members of personal pension schemes; 17 per cent of the group said that they had personal pensions compared to 27 per cent of those on higher incomes.[15]

Credit and debt

The target group are less likely than those on higher incomes to have outstanding loans or credit agreements. While 56 per cent say they have a credit card, only 8 per cent have a personal loan, compared to 21 per cent of those on higher incomes. They are also less likely to have hire purchase agreements or store cards.[16]

The amount of money they owe is also, broadly speaking, lower. This is likely to reflect greater accessibility to debt among those on higher incomes. However, the proportion who say that their loan and hire purchase repayments are a burden is higher. For example, among families, 41 per cent say their repayments are a burden, compared to 30 per cent of those on higher incomes.[17]

Housing

77 per cent of the target group own their own home which is broadly in line with the national average. They are more likely to have experienced difficulties in meeting their housing payments than those on higher incomes. For example, twice as many of those in the family cluster have been at least two months late with their housing payments as those on higher incomes; 35 per cent compared to 17 per cent. 87 per cent say they have had to make cutbacks as a result of having difficulties meeting their housing payments, a higher proportion than both higher earners and those who are more reliant on benefits.[18]

Financial capability

The FSA's baseline survey showed that, broadly speaking, the UK population are very capable of making ends meet and keeping track of their finances, but much less capable of planning ahead, staying informed and, in particular, choosing products. It also found that, in the main, income is not a key determinant of financial capability.

Our analysis reinforces these conclusions. In many respects, the financial capability of the target group matches that of the population at large. 75 per cent are able to keep up with their financial commitments and 81 per cent claim to be well organised in managing their finances. The majority of the group see themselves as 'savers rather than spenders' and say that they would prefer to cut back rather than spend on a credit card.

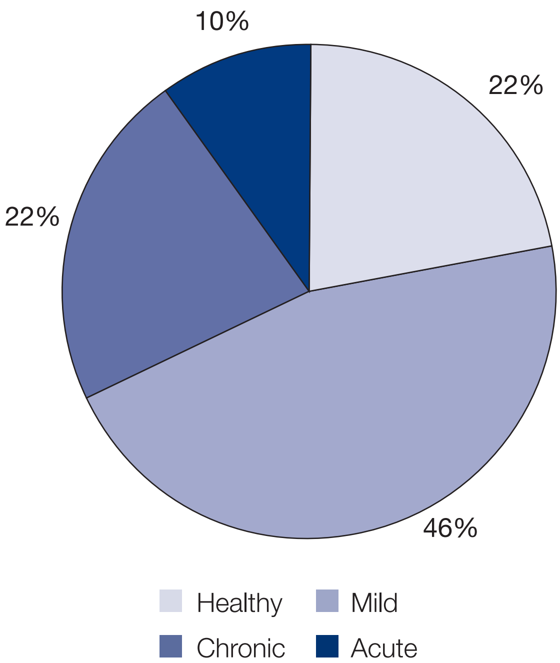
However, only 25 per cent have considered making provision for an unexpected drop in income, compared to 35 per cent of those on higher incomes. This finding is similar to those in relation to the proportion of the group who are members of available pension schemes and who hold long term insurance and risk mitigation products.[19]

[15] Findings based on analysis of the FSA baseline survey
[16] Findings based on analysis of the FSA baseline survey
[17] Findings based on analysis of the BHPS
[18] Findings based on analysis of the BHPS
[19] Findings based on FSA baseline survey

Financial health

The target group's 'financial health' can be assessed by using straightforward measures of financial well-being such as mortgage and debt to income gearing ratios, savings levels and whether they run out of money before the end of the month.

Chart 5: Financial health



Healthy: Has a pension, a sensible combination of other key financial products and more than minimal savings for their age group.

Mild: Shows one or more of the following symptoms: has a potentially inefficient combination of products, no pension or minimal savings for their age group.

Chronic: Shows one or more of the following symptoms: debt (excluding mortgage) of 70-100 per cent of income; mortgage payments of 50-70 per cent of income; usually runs out of money before the end of the month; very low savings for their age. Also includes those with 'acute' symptoms but who own equity of more than £70,000.

Acute: Shows one or more of the following symptoms: debt (excluding mortgage) in excess of 100 per cent of income; mortgage payments of at least 70 per cent of income; always runs out of money before the end of the month; has suffered an unexpected drop in income due to job loss, bereavement or divorce.

Source: Analysis of the BHPS and FSA baseline survey

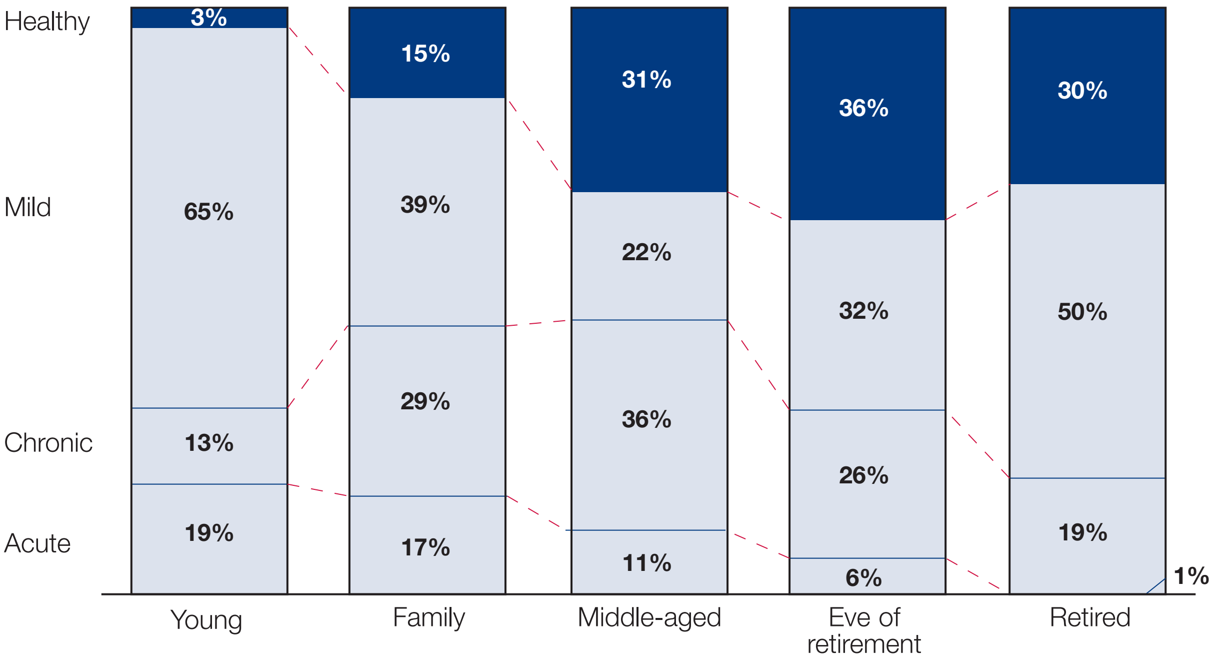
This analysis shows that more than one in five of the target group have little to be concerned about. A further 46 per cent are in a reasonable state of financial health, but are showing some signs of financial stress or could be managing their money more effectively. They may be lacking sufficient savings or do not hold pensions, insurance or other key financial products.

However, nearly a quarter of the target group display 'chronic' signs of financial stress and may be at risk of falling into financial crisis. Many people in this situation have little or no savings to help them cope if they experience an unexpected drop in their income. A further 10 per cent are facing acute financial difficulties and may have already reached crisis point.

The financial health of the target group is broken down further by the different cluster groups in Chart 6.




Chart 6: Financial health by cluster group



Source: Analysis of the BHPS and FSA baseline survey

Some of these findings are not surprising. The number of people in the 'healthy' category would be expected to rise as people's incomes increase with age. Likewise, the numbers in the acute segment might be expected to fall with age. However, the analysis also shows a significant bulge in the number of people experiencing 'chronic' financial health among families and middle-aged people.

This suggests that there is much to be gained by improving financial decision-making during these life stages. This could also reduce the high proportion of people experiencing problems in later life; more than a quarter of people in the eve of retirement cluster experience 'chronic' problems and more than two-thirds of retired people continue to show some signs of financial stress.

The building blocks for a national financial advice resource

The Resolution Foundation is not just interested in investigating the characteristics and advice needs of our target group; we also want to identify a service delivery framework for a new national financial advice resource that commands support and is capable of being implemented. We therefore undertook a major project to identify delivery options for such a resource.

As set out above, this project involved extensive research including:

- 400 telephone interviews with people from the target group
- A series of five focus groups with representative samples from the group
- A number of interviews with established advice providers and independent financial advisers (IFAs)

Rigorous business analysis and financial modelling was used to translate the findings from this research into fully-costed service delivery options, based on six key 'building blocks':

- The customer base for the resource
- The type of advice offered
- The style of that advice
- The delivery channels used to provide it
- The marketing challenge the new resource would face
- The operating model for delivering it

Building block 1: The client base

There is a need and high stated demand for a new national financial advice resource among the target group.

As set out above, the key assumption driving the Foundation's work is that people on low to moderate incomes currently lack access to impartial financial advice. Further research undertaken as part of the delivery options project supports this assumption.

Analysis of the advice provider landscape showed that current advice services tend to be focused on providing debt counselling or aimed at meeting the financial and other advice needs of the poorest and most vulnerable. National Debtline, the Consumer Credit Counselling Service and Payplan are examples of the former, while Citizens Advice is perhaps the best known provider of the latter type of service.

Interviews with IFAs confirmed that they rarely target this segment of the population as it is unlikely to be profitable for them to do so. The focus groups also highlighted this issue; participants' comments suggested that they felt the industry is reluctant to provide advice unless it is linked to a product sale.

Our telephone survey of the target group showed a high stated demand for advice and support for the concept of a national financial advice resource. 60 per cent of people interviewed said that they would be interested in receiving advice and around 40 per cent said they would use the resource at least once a year. This is in line with a similar survey carried out by *Which?* in 2002, which also found that around 60 per cent of people said they would use their proposed National Financial Advice Network.[20]

Our research indicates a need for advice among all the clusters in the target group, suggesting that a new service should act at least as a first point of contact for all people on low incomes. In providing more in-depth advice, the service could prioritise by need. Feedback from our focus groups suggested that the elderly population are likely to require less advice than the other groups. For those in need of debt advice, effective referral arrangements would need to be put in place with existing providers.

Building block 2: The type of advice

A range of advice should be provided covering products, financial management, life-stages and financial crises. This advice can be provided on a 'generic' basis and does not have to be regulated.

The delivery options project identified four key types of advice that could be offered: product-related advice, advice on financial management techniques, advice linked to different life-stages and crisis-related advice. These are explored in more detail below.

Product-related advice

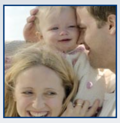
32 per cent of people interviewed were interested in receiving product-related advice. The focus groups also invariably raised product comparison and explanation as a key advice need. However, participants were clear that they did not want advice to go as far as providing guidance on specific products or providers; they felt that this would compromise the independence of the service. The potential value of product-related advice is supported by previous research by the FSA which estimated that the typical consumer loses between £70 and £710 a year through poor financial product choices,[21] and the findings of the baseline survey of financial capability which showed that people are very poor at choosing products.

The cost of poor financial decision making is an issue we will be investigating further over the coming months.

[20] National Financial Advice Network Policy Paper, Consumers' Association, 2002

[21] *Losing interest: How much can consumers save by shopping around for financial products?* FSA occasional paper series 19, October 2002






Financial management advice

25 per cent of people interviewed were interested in receiving advice on financial management techniques. Feedback from our focus groups identified the importance of this type of advice in helping with, for example, decisions about how much debt people should take on and how much income to save. IFAs and other service providers also endorsed the value of this type of advice in helping people make informed financial choices.

Advice linked to life-stages

Critical life-stage events include, for example, starting a new job, buying a house, having children, divorce or separation, retirement planning, taking on caring responsibilities and coping with the death of a partner. Such events often involve making important financial decisions which can have a significant impact on future financial well-being. Evidence suggests, for example, that shopping around for an annuity can increase pension income by 10 per cent or more, although only 40 per cent currently take up the option to move to another provider.[22] Life-stage events can also act as key trigger points in prompting people to seek advice. Just under 30 per cent of people interviewed said they would be interested in receiving this type of advice.

Crisis-related advice

27 per cent of people interviewed said they would be interested in receiving crisis-related advice. Although, as set out above, the provision of remedial advice to address debt problems is expanding, these services do not currently have the capacitiy to meet demand. Strikingly, more than 20 per cent of people in the target group with ‘acute’ financial health problems have suffered a relationship breakdown in the last 12 months and 50 per cent have lost their job. Evidence suggests that receiving advice at this point can prevent over-indebtedness and relieve subsequent financial and emotional stress.

Generic or regulated advice?

A further important question is whether these types of advice can be provided by a generic advice service or whether the advice must be regulated. As set out above, generic advice is essentially information, advice and guidance that does not involve making recommendations about specific providers or products. In contrast, regulated advice, which does involve making these recommendations, must be provided by authorised advisers operating in compliance with the Financial Services and Markets Act 2000.

Based on our research and initial discussions with the FSA, we believe that all of these types of advice could be provided in sufficient detail to satisfy the client, without straying into regulated territory. Nevertheless, whilst ensuring that advice is as comprehensive as possible, it will be important to establish clear boundaries between generic and regulated advice that advisers do not cross. The content of the advice that could be provided by the service and establishing practical ways to deal with where these boundaries lie are issues that the Foundation will be exploring further over the coming months.

Building block 3: The style of advice

Advice should be simple, personalised and independent, and should be delivered in short sessions.

Although basic information and self-help guides are popular with the target group, participants in the focus groups suggested that people want ‘a conversation’ to ensure that advice is properly tailored to their needs and circumstances. They also indicated that people want advice to be simple and independent. Research into behavioural economics also suggests that people are less likely to act on advice products that are based solely on information.

Our research also indicated that people prefer to receive advice in short sessions rather than lengthy consultations; 80 per cent of people interviewed said that they would prefer or would be happy with a session of 10-15 minutes. Evidence from existing advice services supports this. The experience of National Debtline, for example, shows that advice focused on addressing three or four key issues delivered in 15 minute sessions can be of significant benefit in even the most complex debt cases. Even where more detailed advice or counselling is required, the evidence is that sessions of around 30 minutes should be sufficient. Pilots recently conducted by Citizens Advice, which used IFAs to provide advice in citizens advice bureaux, found that both IFAs and clients judge half hour sessions to be long enough.[23] User-testing could be undertaken to explore this further.

Building block 4: Advice channels

Advice could be delivered in high volumes at low cost via the telephone. For some people, access to face-to-face advice is important.

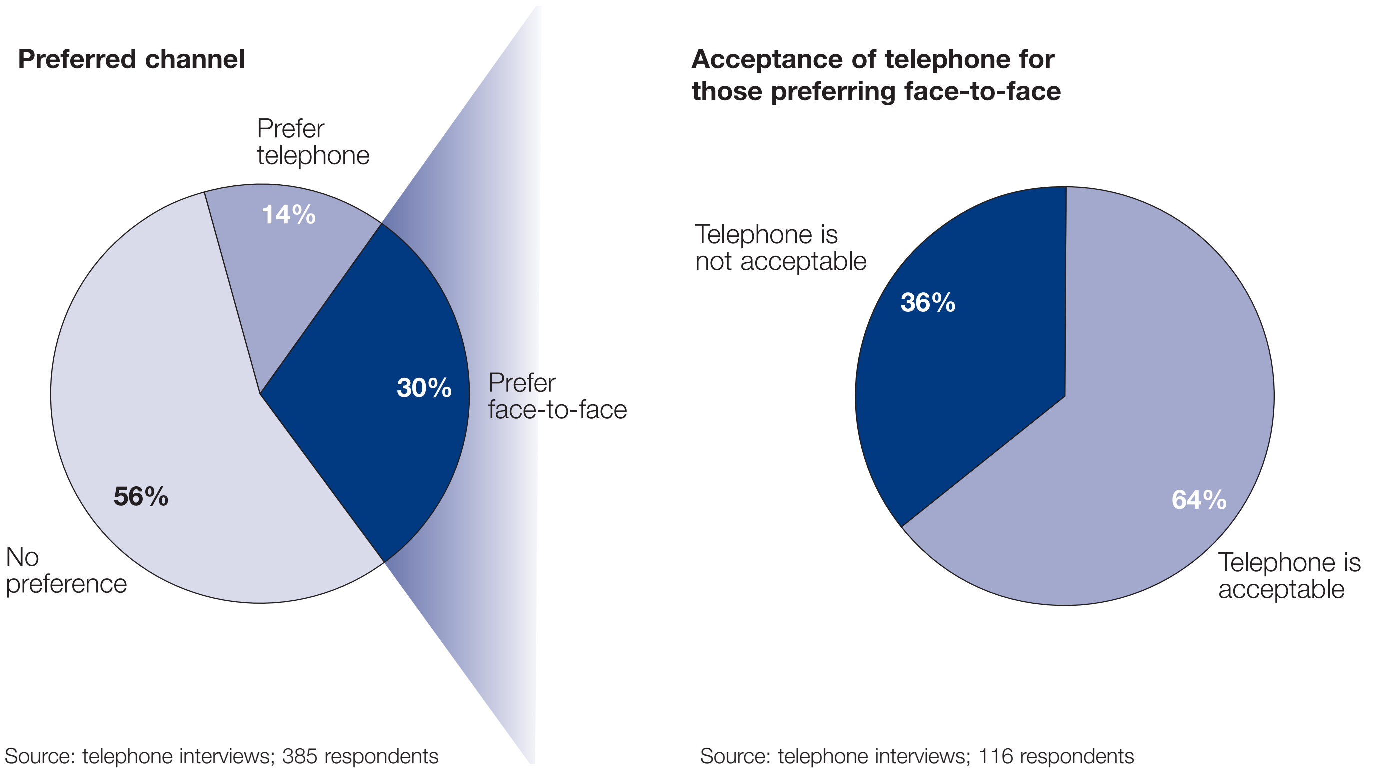
Our research tested attitudes to receiving advice via the telephone, face-to-face or through other channels such as the Internet or group seminars.

Telephone advice

70 per cent of people interviewed said they would prefer telephone advice or expressed no preference. Of the remaining 30 per cent, nearly two-thirds said that they would find telephone advice acceptable, suggesting that around 90 per cent of people in the target group would be happy to use a telephone-based service (see Chart 7). This was backed up by our focus groups which found that, although some people expressed a preference for face-to-face advice, almost all of them said that telephone advice would be useful, at least as a first step.

[22] *Annuities: Bonus or burden;* ABI, 2005
[23] Financial Advice Pilot Project: Evaluation report; Citizens Advice, 2005

Chart 7: Advice channel preferences



Source: telephone interviews; 385 respondents

Source: telephone interviews; 116 respondents

Evidence from existing services supports this. An evaluation of the National Debtline pilot found that 63 per cent of clients preferred the telephone as an advice channel.[24] Research by the Legal Services Commission into pilot schemes for providing legal advice via the telephone found that telephone advice can play an important role in extending access, that it results in time and efficiency savings in comparison with face-to-face advice and, critically, that outcomes for clients were as good or better compared to those for face-to-face advice.[25]

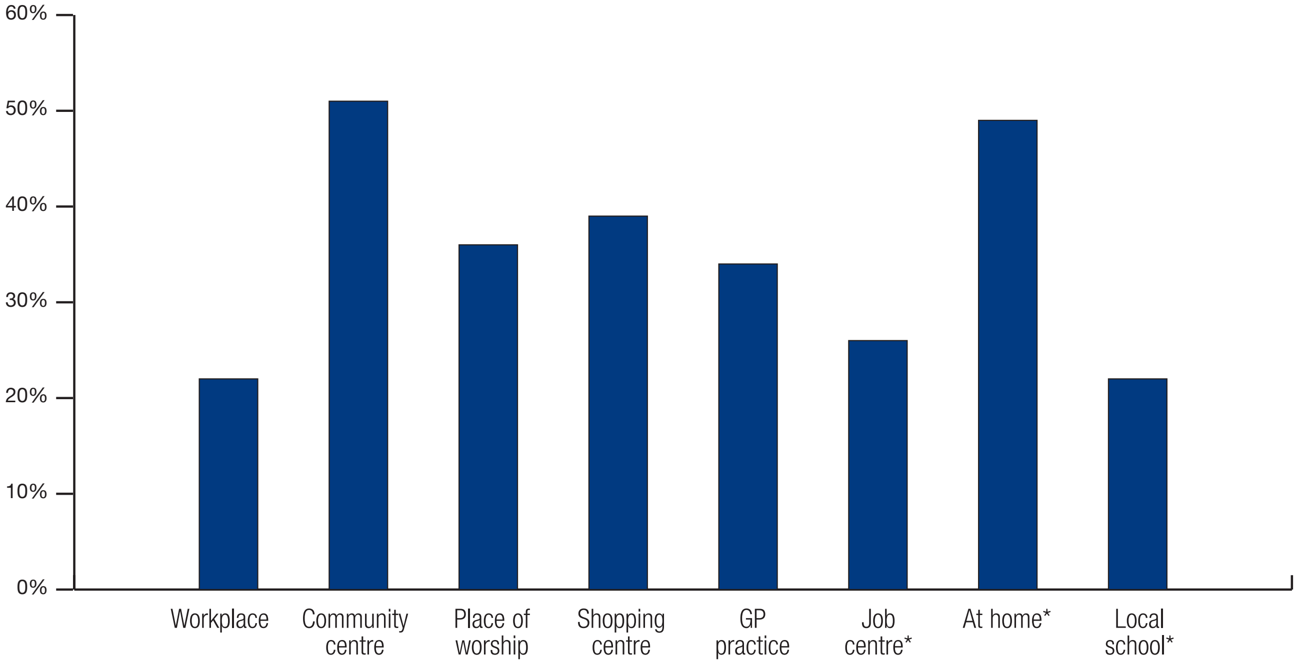
Face-to-face advice

For a minority of people, the provision of face-to-face advice is important. 10 per cent of people we interviewed said they would not use a telephone-based service. Feedback from our focus groups indicated that a higher proportion of elderly people in particular would prefer face-to-face advice. Face-to-face advice would also be more accessible for some people, for example those who do not have English as a first language.

Including a face-to-face element to the service would therefore extend the reach of a national financial advice resource and make it more inclusive. Our research indicates that a number of locations would be popular for receiving this advice, with local community centres and the home scoring particularly highly.

[24] *Evaluation of Money Advice Debtline pilot and business case for development of National Debtline;* Deloitte and Touche, 2003
[25] *Improving access to advice in the Community Legal Service : Report on evaluation of research on alternative methods of delivery*; Legal Services Commission, 2004

Chart 8: Location preference for face-to-face advice



Source: telephone survey; 400 respondents (*195 respondents only)

Interestingly, libraries (including mobile units) emerged, unprompted, as an option from both the telephone interviews and the focus group research. However, as the chart shows, the workplace received only lukewarm support. Participants in the focus groups were consistently negative about the workplace as a location for receiving advice. The high proportion of the target group who are self-employed or work in small firms also makes it less attractive as a venue for providing face-to-face advice for this income group.

Other advice channels

The Internet, group seminars and television broadcasts could also be considered as cost effective options for supplementing the main advice service. The Internet provides an effective way of delivering information, although its reach and acceptability as an advice channel is limited. 44 per cent of the target group do not have access to the Internet at home and only around a third of those we surveyed found it attractive as a source of advice. Participants in the focus groups also doubted whether it is sufficiently personal or secure.

Just over 50 per cent of people surveyed said they would attend group seminars and more than 40 per cent said the television would be an attractive medium, although research suggests that it would be more effective as a channel for promoting the service than for providing advice that people are likely to act on.

Building block 5: The marketing challenge

A new brand and a significant marketing effort will be needed.

A new national financial advice resource would face a significant marketing challenge to promote take-up and position itself clearly alongside remedial and other existing services. In order to build awareness, a significant marketing budget would therefore be required.

Our research indicates that a new brand would be needed for the resource. A key issue raised in the focus groups was to avoid any perception that the service is associated with being ‘in trouble’. On this basis, participants did not believe that existing advice services would convey the right messages. The new brand would need to be based on trust, simplicity and being seen as a ‘natural’ service to use by the target group; using it should be seen as a responsible and smart thing to do.

In addition to marketing and promotional campaigns, life-stage events could provide important triggers for encouraging people to use the service. Major government initiatives such as pension reform could also create important opportunities to promote take-up. Ensuring a high quality of service would be critical to provide positive experiences, creating loyalty among clients and ensuring these experiences are passed on by ‘word of mouth’.

Although 25 per cent of people we surveyed said they would be willing to pay a small fee, making the resource free at the point of use would clearly also encourage take-up.

Building block 6: The operating model

A new independent organisation would be needed to oversee and manage the advice resource. Providing its independence is maintained, there would be strong support for this being backed by a public-private partnership, funded by the Government and the financial services industry.

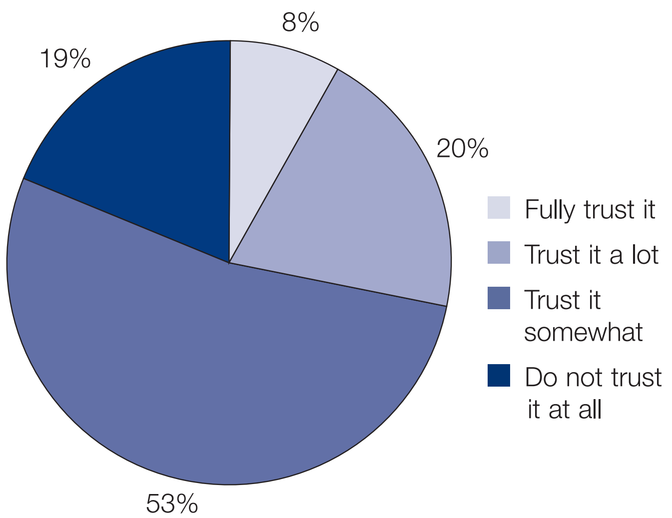
The Resolution Foundation believes that a new national financial advice resource should be overseen and funded by a public-private partnership. This reflects our belief that such a service would help create confident consumers able to interact more effectively with the financial services industry, and that it would deliver a public good to society with potential public expenditure savings.

A new organisation would therefore need to be established which would be responsible for setting up the operating model for the service and managing it as it goes forward. As set out above, our research indicates that it would be critical for the service to be independent and governance arrangements would need to reflect this. A number of options could deliver this including setting it up as a charitable company or a community interest company.

Our research also shows that, providing this independence is maintained and the service is not involved in product sales, there would be strong support for it being backed by government; 81 per cent of people we interviewed said they would trust a government-backed service. Trust levels remained high if the service is also backed by the financial services industry, although the focus groups pointed out that, to maintain credibility, it would need to be funded by a range of players, rather than just a few.

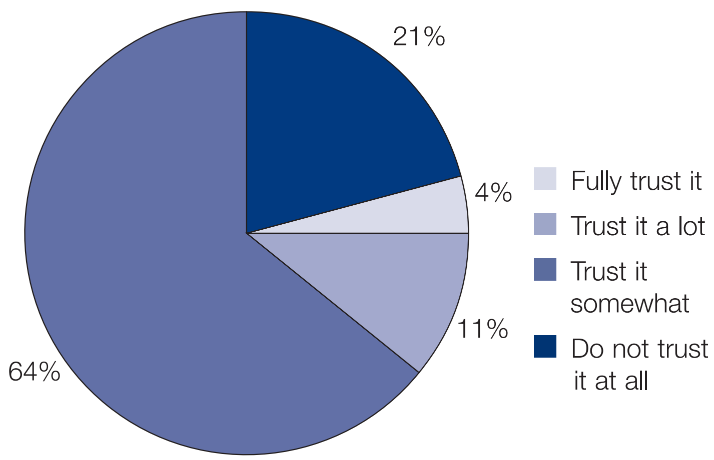
Chart 9: Trust levels for new organisation

Trust level if organisation were supported by the Government and did not sell products



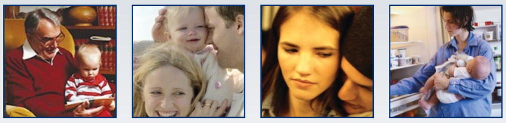
Source: telephone survey; 379 respondents

Trust level if organisation were also funded by financial institutions and did not sell products



Source: telephone survey; 382 respondents

The core elements of the operating model would be the service distribution channels, the advice engine (including the content of the advice and standards for the service) and marketing. A number of support services would be required including human resources, finance, legal and IT. An effective training operation with associated quality standards would be particularly important given the need to train, and regularly update, a large number of advisers. Any such organisation would face a number of key challenges including:



Recruitment

It would be essential to recruit a management team with an appropriate breadth of expertise and experience. A large number of trained, professional advisers would also be required. Participants in our focus groups stressed the importance of advisers being experienced, qualified and empathetic, and they would also need to be able to communicate complex information in a simple but meaningful way. It would also be essential to maintain motivation and keep attrition rates low.

Capacity

The new organisation would need to plan growth carefully to avoid the twin risks of overreaching or undershooting demand. The former would impact on efficiency and increase unit costs, while the latter would cause clients to abandon the service and damage reputation. Interfaces with other services would also need to be managed carefully as the introduction of a service of this type could, for example, increase demand for debt advice through referrals.

Service quality

Maintaining a high quality of service would be critical in establishing the resource's credibility. This would mean developing robust standards and scripts for the service, refreshing the advice provided in response to client feedback and external developments, and adhering to clear boundaries between generic and regulated advice. A rigorous compliance system would be needed to ensure standards are adhered to.

Service delivery models

Based on the findings outlined in this report and following detailed business analysis and financial modelling, we have arrived at a set of potential service delivery models. These models are based on using the Internet, the telephone and face-to-face advisers as delivery channels for the service.

The models embody different levels of client reach and depth of service, with costs varying accordingly. All of them could be scaled up or down to serve more or fewer people. However, whereas models 1 and 2 could be scaled up or down with little impact on the unit costs, the infrastructure needed for models 3 and 4 would mean the unit costs would increase more significantly should a smaller number of people be served.

The models are also largely based on four of the cluster groups using the service: young people, families, middle aged people and those on the eve of retirement. We would also expect elderly people to use the service. However, we believe that they are unlikely to make as much use of it as the rest of the population. According to our research, they also have a stronger preference for face-to-face advice.[26]

The service models are summarised and then described in more detail in Chart 10.

Chart 10: Service delivery options

	Model 1	Model 2	Model 3	Model 4
	Advice Net	**Advice Line**	**Advice Hubs**	**National Advice**
Value proposition	'We help you help yourself or direct you to someone who can advise you in a crisis'	'We give you customised financial advice over the phone'	'We give you customised advice over the phone, or face-to-face in a regional centre'	'We give you customised advice through your preferred channel'
Description	• Information and self-help kits on website and by mail • Telephone to: – Assist with information and kits – Refer where required/possible	Model 1+ • Simple and detailed advice over the telephone	Model 2+ • Rationed face-to-face advice in regional centres for priority groups	Model 3+ • Face-to-face advice in local centres for people who prefer it

Model 1: Advice net

This model would provide a comprehensive web-based service, including information, interactive tools and access to self-help packs. It would be backed by a telephone helpline to assist people in navigating the website, respond to requests for information and help with referrals, although it would not offer advice as such. Annual operating costs would be around £10-£15 million, with set-up costs of £6-£8 million. Unit costs would be approximately £6 per person served.

The experience of the *sorted* website in New Zealand shows how web-based services can provide a very effective, if limited, service.[27] This model also has the advantage of being cheap. However, although a degree of customisation can be achieved through the use of interactive web-based tools, it would not provide the level of personalisation our research indicates is needed.

[26] The models do not factor in usage by the additional 3 million elderly people identified by our new methodology for calculating when they become independent of state support. Including a stronger focus on serving the elderly population would change some of the assumptions behind the models and therefore the costings, particularly in models 3 and 4.

[27] The *sorted* website provides information on financial planning and is overseen by the Retirement Commission in New Zealand




Model 2: Advice line

Under this model, the core of the service would be delivered via a telephone advice line, supported by a web-based information service. This model could enable personalised advice to be delivered in high volumes, at low cost to around 2 million people a year. We estimate that annual running costs would be in the region of £25-£35 million, with initial set up costs of £15-£20 million. The unit cost per person served would be £15.

Another advantage of a telephone-based service is that the control and monitoring of advice, which is crucial to ensure that quality standards are achieved and that advisers do not stray into regulated territory, is much easier to manage than in a dispersed face-to-face network.

Model 3: Advice hubs

This model would be similar to Model 2, but would be augmented by a limited amount of face-to-face advice, provided on a rationed basis from regional centres. Working in partnership with local services could deliver suitable locations for scheduled advice sessions without new premises having to be found.

We have included two costings for this model. Annual costs for Model (3a), which would serve a similar proportion of the target group as Model 2, would be around £35-£45 million, with set-up costs of £15-£25 million. Model (3b) would serve a larger proportion of the target group, at an annual cost of £50-£65 million and with set up costs of £20-£30 million. Unit costs would be £20 and £16 respectively.

Including face-to-face advice on a rationed basis would enable more of the target group to be served by their preferred advice channel and would make the service more accessible to those who need it. However, this increases costs and the reach of this element of the service would still be limited.

Model 4: National advice

Model 4 would offer an all-encompassing service providing web-based information, a telephone advice line and a comprehensive network of face-to-face advisers operating from 350-400 locations across the UK. Under this model, local centres could offer scheduled meetings as well as drop-in clinics and seminars. Partnerships could be established to deliver these sessions from a range of locations.

As with Model (3b), this model could deliver personalised advice to approximately 3.5 million people, although significantly more of them would be served by face-to-face advice. It would therefore need considerably more face-to-face advisers and the cost, at £90-£110 million per annum with £30-£40 million in set up costs, would be significantly higher. Unit costs, at £29 per person served, would also be higher than for the other models.

The key operating indicators and costs for all four models are summarised in Chart 11.

Key operating indicators and costs

	Model 1 Advice Net	Model 2 Advice Line	Model 3 Advice Hubs		Model 4 National Advice
No. of people served			3a	3b	
• Internet	7.0+	7.0+	7.0+	7.0+	7.0+
• **Personal interaction**	**2.0**	**2.0**	**2.0**	**3.5**	**3.5**
– Telephone	2.0	2.0	1.9	3.3	2.5
– Face-to-face	–	–	0.1	0.2	1.0
Customers served					
• Share of target group	15%	15%	15%	25%	25%
• Share of those interested ...	43%	43%	43%	72%	78%
• ... via their preferred channel	35%	70%	73%	74%	95%
Advisers	**150**	**500**	**600**	**1,050**	**1,800**
• Telephone	150	500	490	850	750
• Face-to-face	–	–	110	200	1,050
Cost					
• Setup (£ million)*	£6 - £8	£15 - £20	£15 - £25	£20 - £30	£30 - £40
• Operating (£ million)**	**£10 - £15**	**£25 - £35**	**£35 - £45**	**£50 - £65**	**£90 - £110**
• Per individual served	~ £6	~ £15	~ £20	~ £16	~ £29

* Including marketing setup of £5 - £15 million ** Including marketing costs of £5 -£10 million

Conclusion

This report marks the completion of the first stage of the Resolution Foundation's work in investigating the potential for delivering a national financial advice resource.

Our research has given us a much clearer understanding of our target group of people on low to moderate incomes. It reveals a diverse group of people who, in common with the rest of the population, are capable of managing their finances on a day-to-day basis. The majority hold basic financial products and many are aware of the financial challenges they face, for example in relation to pensions.

However, a significant proportion of the group are characterised by a failure to act on this awareness and to secure their future financial well being. They are much less likely to be members of an available employer's pension scheme or to have a personal pension, to have made provision for an unexpected drop in income or to have key insurance and risk mitigation products. Unlike those on higher incomes, they do not have the cushion of greater wealth to offset this. This leaves them at risk should their incomes fall or their circumstances change.

The target group therefore has a great deal to gain by making better financial choices. The Foundation believes that there is a compelling case for establishing a new national resource to facilitate this by providing generic financial advice, targeted at this group. Our research into the options for providing such a service shows that this advice could be delivered in short sessions, in high volumes and, depending on the option chosen, at relatively low cost. It also reveals that there would be strong backing for a service funded by a partnership between the Government and the financial services industry, as long as it independent.

Consultation

We are conscious that commentators and consumer groups have long argued the case for this type of service. The provision of generic financial advice is also a key part of the FSA's strategy to improve financial capability and we are aware that the FSA carried out a consultation exercise on this in 2004.

We are keen to move the debate on by building consensus on the best way forward in response to our findings, and to identify remaining issues and barriers to establishing a national financial advice resource. We therefore hope a wide range of stakeholders will send us their views in response to the questions below. Our main aim in carrying out this exercise is to canvas views on the delivery models identified and how such a resource should be funded.

(1) Do you agree that there is a problem of access to financial advice for people on low incomes? Do you, in principle, support the development of a new national financial advice resource to address this issue?

(2) What would be the benefits of such a resource to (a) consumers; (b) the financial services industry; and (c) public policy and society more widely?

(3) Of the options identified for delivering this resource, which would you support? What do you think the balance should be between providing web-based, telephone and face-to-face advice?

(4) Do you agree that such a resource should be funded by a public-private partnership between the Government and the financial services industry? If so, what do you think the balance of that funding should be?

(5) What type of advice do you think it would be important for the service to deliver? (a) product-related advice; (b) advice on financial management; (c) advice at different life-stages; or (d) crisis-related advice. Should it deliver any other types of advice?

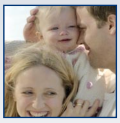
(6) Do you agree that a new, independent organisation would be needed to oversee such a resource? How would you suggest this is constituted? How could it be co-ordinated with existing advice services, especially in relation to the provision of face-to-face advice?

(7) Should it prioritise any particular groups of people and if so, who and why?

(8) What would be the key considerations in marketing such a resource?

(9) Do you agree that appropriate advice could be delivered by a generic service and would not need to be regulated. How could quality and standards be ensured?

(10) What more do you think needs to be done to establish a resource of this type?

Please send responses by 14 July 2006 by post to:

Closing the advice gap consultation
Resolution Foundation
Juxon House
100 St Paul's Churchyard
London EC4M 8BU

or by email to:
info@resolutionfoundation.org

Next steps

In the meantime, our research programme will continue. Projects currently under way or soon to be commissioned include:

- Economic modelling to identify the cost to individuals and to the State of poor financial decision-making and the potential savings that could be made to the public purse, as well as to the individual, by providing a financial advice resource aimed at the target group.

- Research to identify the potential for generic financial advice to be provided to the UK population as a whole on a commercial basis. This project is being undertaken in partnership with the FSA.

- Further research to define the content of the advice that could be provided by a national financial advice resource. This research will clarify the boundary between generic financial advice and regulated advice.

We are also undertaking informal discussions with external organisations with experience of marketing and delivering similar large scale services to ensure that we identify a service proposition and delivery framework which is capable of being implemented.

However, our key objective in the short term is to build on the findings in this report, develop a consensus on how a national financial advice resource could be delivered and to drive this agenda forward.

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