

GENERIC FINANCIAL ADVICE:

Evaluating commercial approaches

By Alan Goodman

About the Resolution Foundation

The Resolution Foundation is an independent research and policy organisation, concerned with how people on low to moderate incomes fare in the mixed welfare economy. 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.

About the author

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Foreword by Sue Regan

The Resolution Foundation is examining the financial advice needs of 15 million people in the UK on low to moderate incomes. We have developed a programme of research to evaluate the case for establishing a national advice resource to provide impartial, generic financial advice targeted at people in this income group.

This report, commissioned in consultation with the FSA, looks more broadly at whether there are opportunities for commercial organisations to provide generic financial advice to the population at large. Based on extensive discussions with practitioners, it concludes that there are, at best, only limited commercial opportunities to extend current generic advice offerings, and that there is little appetite within the industry for doing so.

However, this is not to say that increasing the supply of generic financial advice would not deliver significant benefits to the financial services industry. As we and others have argued elsewhere, generic advice could play an important role in increasing consumer confidence and improving the efficiency of the market for financial products, potentially delivering major commercial benefits over the long term. It is just that providing this advice, particularly to those on low incomes who need it most, would not deliver sufficient returns to make it a viable commercial prospect.

This is why the Resolution Foundation continues to believe that the most efficient way of increasing the supply of generic financial advice is to develop a new national advice resource, funded by a public-private partnership between the Government and the financial services industry. This would provide the most effective way of balancing the benefits it would bring to the industry, consumer and society, with the need to provide a fair and sustainable funding structure.



Sue Regan

Chief Executive
Resolution Foundation

Foreword by Shaun Mundy

The FSA-led National Strategy for Financial Capability has, as one of its priorities, the provision of non-regulated money advice. Through the work of the Generic Advice Working Group, the definition of money advice has been clarified, a National Occupational Standard has been developed in conjunction with the Financial Services Skills Council, and on-line financial healthcheck and debt test tools have been launched.

The Financial Capability Steering Group asked for an assessment of whether there is a commercial case for the provision of money advice. This report, commissioned by the Resolution Foundation in consultation with the FSA, is intended as a contribution to the debate.



Shaun Mundy

Head of Financial Capability Department
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Executive summary

Background

- 1.1 This report analyses whether generic financial advice services could be provided on a commercial basis and, if so, what form they would take and which sections of society they would serve.
- 1.2 For these purposes 'commercial case' means a proposition justified purely by its direct commercial return to the provider. The commercial providers considered in this report are banks, building societies and insurance companies, all of which are suppliers of both products and financial advice, and independent financial advisers (IFAs) who are suppliers of advice only.
- 1.3 Generic financial advice is defined to be impartial, non-regulated advice that helps people to understand their financial circumstances, the choices available to them and how to take action to address their priorities i.e. it does not involve giving recommendations about specific products or providers. Based on the Resolution Foundation's previous research, four types of advice have been identified (in practice, these different types of advice are often inter-related):
 - Product-related
 - Life stage transition
 - Crisis-related
 - Planning and budgeting
- 1.4 In its other work, the Resolution Foundation is focusing on the financial advice needs of people on low to moderate incomes. This report looks at the commercial viability of providing generic financial advice to the population as a whole.
- 1.5 The report is based on three main sources of evidence:
 - A review of previous research
 - An extensive programme of interviews with practitioners in the industry, the regulator and other interested organisations
 - The experience of the author in his own commercial career in the industry, especially in developing internet-based advice models

Need and demand for generic financial advice

- 1.6 Research and interview evidence suggests that there is a strong need for generic financial advice. However,

consumers often need prompting before they will seek it. To turn need into demand, and demand into action, advice must therefore be easy to access and immediately relevant to the consumer, and needs to act as a catalyst to action. In other words, advice needs to incorporate:

- A **'trusted sense maker'**, helping the individual understand their needs and how their financial choices and financial products might address them.
- A **'persuader'**, acting as the catalyst to make and implement an appropriate set of choices.

- 1.7 Consumers have a wide range of different needs for information and advice. Often, generic advice is all they require. However, they tend not to categorise different forms of advice and often see advice as being synonymous with information. In particular, they do not generally distinguish between generic and regulated advice - for most consumers, 'advice is advice'.

Current supply and attitudes to generic financial advice

- 1.8 In the mass market, consumers are unlikely to pay for advice other than in very specific circumstances. Even for those who are prepared to pay, the level of payment they would consider acceptable is often uneconomic for commercial suppliers. Some third parties, typically employers, may pay for advice to be provided but this is rare. Thus, revenue has to be generated from the resulting product sales if providing advice is to be economic.
- 1.9 The practitioner interviews demonstrated that providers do not view the provision of generic financial advice as a specific activity. Currently, any generic advice that is provided, is usually in the form of a customer 'fact find' process, delivered either as a stand-alone exercise or, more usually, as a prelude to regulated advice. It may also be provided through servicing call centre activity, by consumer-orientated websites and, for IFAs, via generic product information in lead generation activity.
- 1.10 Where generic financial advice is delivered by providers, it is often seen as an element of corporate social responsibility rather than a commercial activity. Any impetus among providers to consider generic advice services appears to stem more from concerns about the economics of the existing business model, in areas such as pensions, rather than the merits of the business case for providing generic advice.

1.11 Looking by advice type, generic advice provision can be summarised as:

- Product-related: for banks, building societies and insurance companies, it is difficult for providers to meet demand for impartial advice due to the degree of bias implicit in retailing their product ranges. On the other hand, IFAs, who have no implicit product bias, do provide this advice.
- Life stage transition: most advice of this type falls into regulated territory so when generic advice is provided, it is usually as part of or as a prelude to a regulated product sale.
- Crisis-related: commercial providers are not resourced to provide this type of advice.
- Planning and budgeting: again most advice falls within the regulated advice process, usually by establishing affordability as part of the ‘fact find’ process.

1.12 In addition to commercial considerations, the amount of generic advice currently provided by commercial providers is necessarily limited because:

- Staff have insufficient experience to deal with a broad range of generic questions.
- Commercial providers are not currently resourced to meet more complex needs unless they can be met within the normal regulated advice process.

1.13 In addition, for banks, building societies and insurance companies:

- Staff are normally encouraged (and sometimes are given incentives) to sell their own products and have limited knowledge about other products in the market place. Consequently, giving more broadly-based advice is difficult.
- Generic advice may lead to a customer taking action that results in reduced profitability for the organisation (such as reducing loans or changing credit cards).

1.14 Ultimately, no commercial case has yet been made within the financial services industry for offering generic advice other than in its current limited form, and none of the providers interviewed have any plans for extending their services in this area.

Other potential opportunities to supply generic financial advice

1.15 The author also considered other potential opportunities for providing generic advice including:

- Insurance companies: adapting current advice-delivery processes to provide telephone-based advice to ‘orphaned’ policyholders.
- IFAs: using telephone-based models and face-to-face advice in the workplace and with affinity groups.
- Banks and building societies: in-branch money advice centres have been actively considered by a number of providers with the conclusion that they are not commercially viable.

1.16 Thus, although there is some evidence that financial services organisations could adapt their delivery models to extend existing generic advice services, on a limited basis, to a wider group of people, establishing more wide-ranging services does not seem to be a viable prospect at present.

A new commercial organisation?

1.17 The author also considered whether a new, commercially viable, business model could be developed to deliver a broader range of generic advice to a wider group of people via the internet and telephone. The commercial success of a number of financial comparison websites suggests that it could be viable to extend their current offerings to a broader cross-section of the population. However, a lack of hard evidence coupled with the need to generate demand and change consumer behaviour, means that more detailed work would be required before a commercial case for this type of service could be made.

Conclusion

1.18 Overall, the author concludes that the provision of generic advice by commercial organisations will continue to be limited. Looking at different sectors of the population in turn:

- People on very low incomes (receiving more than 20 per cent of their incomes in welfare benefits) will continue to be poorly served by commercial organisations. Whilst those with internet access could find help from financial comparison and media information websites, the overwhelming majority will find this difficult, unless propositions are made more engaging. Some may prefer to access help from their bank if they have an account, although in many cases, this is likely to be heavily constrained. Citizens Advice, National Debtline and others are therefore likely to continue to be their main point of access, with advice largely restricted to crisis management.
- Those in the Resolution Foundation's 'target' group on low to moderate incomes (on below median earnings but receiving less than 20 per cent of their income from welfare benefits) will also continue to be poorly served by commercial organisations. Making web-based advice propositions more engaging could increase access to some extent and, at the higher end of this income group, customers should be able to access some elements of generic advice through their bank or building society.
- People on medium incomes (£25,000 - £45,000), were once broadly serviced by IFAs and direct salesmen but have been 'orphaned' by direct sales organisation closures and IFA firms moving to higher income customers. This income group is more attractive to the banks, so some elements of generic advice should be available from them. The services of a strong web-based advice proposition could also be attractive to this group.
- Higher earners should continue to be well served by commercial organisations, as they are attractive to banks and the main users of financial advisers for specialist advice. This group already uses the financial comparative websites for its research, advice and product purchases.

Introduction

2.1 This report analyses the potential for non-regulated generic financial advice services to be provided on a commercial basis. 'Commercial basis', for the purposes of this report, means a proposition justified purely by its direct commercial return to the provider. The providers considered include banks, building societies and insurance companies, all of which are suppliers of both products and financial advice, and independent financial advisors (IFAs), who are suppliers only of advice.

2.2 The report seeks to answer the following questions:

- Are there non-regulated generic financial advice services that could be delivered on a commercial basis?
- What might these services look like (what advice type, style and channel might they involve), and who could potentially provide them?
- To which segments of the market could different models deliver?
- Is there a commercial case for investing in these services? (on the basis that they would deliver long-term benefits to both consumers and the financial services industry, for example by cutting down on time and effort in the sales process)

2.3 In its other work, the Resolution Foundation is focusing on the financial advice needs of people on low to moderate incomes (defined as those who are largely independent of welfare benefits but on below median incomes). To investigate the wider potential for providing generic financial advice on a commercial basis, and to reflect the objectives of the FSA-led National Strategy for Financial Capability, this report looks more broadly at delivering advice to the population as a whole.¹

2.4 The report was informed by:

- A review of previous research.
- An extensive programme of consultations with practitioners, the FSA and other interested groups: this included over 45 hours of interviews with 35 organisations or individuals.²

- A small workshop to discuss the findings of the research.
- In analysing the commercial case for a new supplier of generic financial advice (see section 6), the author consulted specialist internet businesses and drew on his own personal experience.

2.5 The report is intended to concentrate primarily on supply rather than demand for generic financial advice. However, because of its close relationship with supply and the strong emphasis placed on it in interviews with practitioners, the report begins by setting out an overview of demand.

¹ The needs of self-employed people (and 'one-man' businesses) are not explicitly identified in most consumer research. This group generally finds it difficult to access generic advice that covers both personal and business financial needs. The scope of this report covers these individuals in relation to their personal financial advice needs but not their business advice needs.

² Information provided on an unattributable basis during the interviews has been analysed and the conclusions set out in the report have been generalised by the author.

Definitions and terminology

- 3.1 Before assessing the potential to provide generic financial advice to a wider group of people on a commercial basis, it is important to understand fully what is meant by different terminology, in particular the term ‘generic advice’ and its relationship to ‘regulated advice’.

What is generic financial advice?

- 3.2 A working party of the FSA developed a definition of generic financial advice which has been used in subsequent work undertaken by Financial Services Skills Council (FSSC) and others.

Box 3.1: Definition of generic financial advice³

Generic financial advice is a set of services and tools that use information about individuals’ circumstances to help them identify and understand their financial position and their needs and to plan their finances accordingly. Generic financial advice helps consumers identify:

- their current financial position and, therefore, the choices and possible priorities for action appropriate to their needs;
- how to take the next steps in addressing their priorities; and
- how to access other relevant sources of information and advice.

- 3.3 This definition allows for the consideration of a range of services and tools that could come under a ‘generic advice’ banner, whilst remaining in the non-regulated terrain. Generic financial advice should not contain any product recommendations - this would constitute regulated advice in most circumstances.
- 3.4 Throughout this report, ‘generic financial advice’ is assumed to be impartial and unbiased. ‘Impartial’ advice is normally interpreted as meaning that the provider of that advice will not gain from the advice given.
- 3.5 Some elements of generic advice can be (and already are being) delivered by commercial organisations that sell products. In particular, generic advice is often delivered as a prelude to regulated advice. In practice, many consumers do not distinguish between the two types of advice.

- 3.6 Some consumers may regard generic advice as being impartial only if it is delivered separately from regulated advice. Others may accept generic advice in the expectation that if a need is identified then the necessary product recommendation will be given. The customer will regard the advice as generic and the product recommendation as a natural consequence of that advice. If the consumer already trusts a particular organisation, he or she will not be concerned by the difference between generic and regulated advice because they will trust that any partiality in the product advice will still be in their best interests.

- 3.7 However, generic advice can take a number of different forms, some of which can be delivered by a commercial organisation without prejudicing the need for impartiality, and some where impartiality would be difficult to maintain. This is discussed in greater detail in section 5. Ultimately, presentation and perception will dictate the degree to which consumers will regard any generic advice as being truly unbiased and impartial.

How does generic advice differ from regulated advice?

- 3.8 The difference between generic and regulated advice is perhaps best illustrated using an example. Having acquired some basic information about the circumstances of an individual, an adviser may say:
- “You should consider some life assurance to protect your family in the event of your death”. This is **generic** advice.
 - “You already appear to have death benefit cover in your pension scheme but you might like to consider topping that up to X times salary. You should also consider cover for your outstanding mortgage”. This is also **generic** advice.
 - “I recommend you take £Y cover with ABC Company”. This is **regulated** advice.
- 3.9 Generic advice may be delivered on a stand-alone basis, or as part of a regulated advice process. In the regulated process, the adviser would, for example, suggest that some form of life assurance should be considered (generic advice), indicate what might be a reasonable level of cover (generic advice) and then go on to make a specific product recommendation (regulated advice).

³ Financial capability: Developing the role of generic financial advice; FSA, 2005

Types of advice

3.10 Generic advice is intended to be a broad definition, which has regard to the wide range of consumer needs identified by the FSA Baseline Survey.⁴ The Resolution Foundation's research into options for delivering generic financial advice to people on low to moderate incomes identified four main categories of advice.⁵ The FSA Baseline Survey results suggest that these categories are equally applicable to the population at large. For ease, therefore, they have been used in this report.

Box 3.2: Types of advice

- **Product-related:** People need access to information and advice when they want to purchase a financial services product. For example, they may not know which product to consider, how to compare product pricing or source products, or may need help in understanding product information and application forms.
- **Life stage transition:** When people get married, start a family, retire or experience some other major transition in their lives, they often need assistance to help them deal with the financial implications.
- **Crisis-related:** People who find it hard to meet their normal expenditure, especially debt repayments, or who suffer a sudden loss of income or an unforeseen expense as a result of job loss, accident, divorce, death of spouse, or some other traumatic event, often need guidance to assist them
- **Planning and budgeting:** Better financial management may involve, for example, reviewing income and expenditure or checking interest rates. Consumers may not know how to do this or lack access to the tools and information they need.

3.11 Throughout this report, these advice types are used to distinguish between the generic advice that can and cannot be delivered by different organisations. Each type of advice includes a wide range of different needs in terms of information and advice, some aspects of which may be difficult to deliver for some organisations (see section 4).

⁴ Levels of financial capability in the UK: Results of a baseline survey; FSA, 2006

⁵ Closing the advice gap; Resolution Foundation, 2006

Consumer need and demand for generic financial advice

4.1 To assess the potential for supplying generic financial advice on a commercial basis, a thorough understanding of need and demand is required. This section considers the need for generic advice, how to translate that need into demand and how demand can be translated into consumer action.

The need for generic financial advice

4.2 Research evidence suggests that generic financial advice would benefit consumers and would be welcomed by them. This evidence also indicates that people often need prompting to seek advice.

- 60 per cent of people on low to moderate incomes and of the population as a whole would be interested in receiving generic financial advice.⁶
- Over 2 million people each month are estimated to access financial information and advice from websites.⁷
- Consumers often need prompting to seek advice. Typical prompts are a financial crisis, being alerted to a problem, changing personal circumstances, needing product advice, and reaching a lifetime milestone.⁸
- People often associate financial advice with savings and investments, and having the surplus cash necessary for those activities.⁹ Many are sceptical that financial advice is relevant to them.
- Consumers who have easy access to advice at the points in their life when they most need it are highly likely to seek that advice.¹⁰
- Experience suggests that, in many cases, those seeking help and advice actually only require generic advice rather than regulated advice (see Box 4.1).

Box 4.1: Need for generic advice

- A telephone service offering advice to a large ‘orphaned’ customer base (primarily made up of socio-economic groups C and D) finds that 80 per cent of those prepared to engage need generic advice, and 20 per cent require regulated advice. The higher the socio-economic groupings, the more those figures move towards 50/50 split.¹¹
- A telephone service that responds to web-based requests for mortgage advice finds that 70 per cent require generic information and 30 per cent need regulated advice.¹²
- The Pensions Advisory Service (TPAS) finds that 90 per cent of its clients need generic information and help and 10 per cent need regulated advice.¹³

4.3 Similar findings emerged from the interviews with practitioners. In particular, the interviewees highlighted:

- Low levels of interest and knowledge among consumers result in a lack of motivation to seek advice and take action. For example, customers rarely seek advice (or products) from banks on a proactive basis. It is difficult to persuade them to seek advice unless they have a compelling reason and they will only tend to take action if given strong reasons why they should do so.
- Although they may need it, few consumers want holistic advice.
- Consumers need help with a wide range of products including savings, general insurance, mortgages, loans, protection, credit cards and banking products.

Consumers need access to a **‘trusted sense maker’** who can answer questions, provide basic information and explain how to take action.

Easy access + immediate relevance = action

⁶ Closing the advice gap; Resolution Foundation, 2006 and National Financial Advice Network Policy Paper; Consumers Association 2002

⁷ Author’s analysis – see Appendix B

⁸ Advice and the best way of delivering it; FSA, 2005

⁹ Better informed consumers, FSA, 2000

¹⁰ Impact of an ageing population on the FSA; FSA, 2002

¹¹ This is a proactive service that offers generic advice in the hope of attracting regulated reviews. It does not offer a comprehensive generic advice service. This means that the proportion of regulated reviews will be relatively high.

¹² This is a reactive service for consumers who have taken the trouble to request advice. As expected, advice to those consumers is synonymous with information and help, so the majority need generic rather than regulated advice.

¹³ This is a service that reflects the balance of need between generic and regulated advice where the call is initiated by the consumer and the subject (pensions) has a broad scope.

The nature of the advice needed

4.4 Within each of the four different advice types set out in section 3, the nature of the advice required varies significantly from individual to individual. Comments made during the interviews with practitioners suggest that:

- Consumers tend not to categorise different forms of advice. In particular, they will not generally distinguish between generic advice and regulated advice. For most consumers, ‘advice is advice’.
- At one extreme, the nature of the advice may be very basic. People may simply require reassurance that their understanding or thinking is correct or might only require answers to straightforward questions such as how a product works, how to complete forms, how to evaluate options or how to get further help.
- At the other extreme, the advice needed may be much more detailed. For example, people may require a wide-ranging review of their financial situation and circumstances to help them understand their financial position, identify their needs and plan their finances accordingly.

4.5 The questions asked by consumers vary significantly. This is highlighted by analysis of mortgage advice requested by consumers who asked to be telephoned by an adviser, having sought information from a website (see Appendix A). Understanding the different types of question that may be asked under the auspices of ‘advice’ is important when considering the commercial viability of delivering generic advice, as this variety creates commercial difficulties. This is discussed in greater detail in section 5.

Changing need into demand

4.6 Supplying access to a ‘trusted sense maker’ (see section 4.3) is critical, but it is insufficient in its own right unless need for advice can be translated into demand. Feedback from the interviews with practitioners suggests that this is a key issue for organisations considering the supply of generic advice.

4.7 Importantly, demand for advice will vary between different types of product. It will be highest for advice in relation to ‘instant gratification’ products such as mortgages (enabling the purchase of a property) and annuities (buying a pension), as well as ‘compulsory’ purchases such as motor and buildings insurance. It will be slightly lower for ‘quasi-compulsory’ products such as protection bought in conjunction with a mortgage, and will be lowest for ‘voluntary’ products such as savings and pensions which provide ‘deferred gratification’.

4.8 Turning need into demand will therefore be easiest for ‘compulsory’ purchase products and more difficult for ‘voluntary’ products, particular those with deferred gratification.

Changing demand into action

4.9 Once consumers have sought generic financial advice, it is then important that they take any necessary action as a result of that advice. This was also a key theme in the interviews with practitioners. Some of the main points raised by practitioners in the interviews included:

- Consumers need a trigger to act; purchases are event-driven and most people will not act without some form of help and advice.
- They also often require a ‘**persuader**’ for them to act. This role is traditionally played by the financial services industry. The degree of persuasion required will depend on the consumer’s perception of urgency.
- If advice relates to a product that provides ‘instant gratification’ or a ‘compulsory’ purchase, little persuasion is usually required. In these circumstances, the consumer has already decided to buy, so persuasion tends to focus on the purchase of a particular brand. However, if advice involves a ‘voluntary’ purchase, such as a savings product, the consumer might require persuasion to save and then to purchase a particular brand.
- Consumers tend to take action if tangible incentives are offered that provide instant gratification. The offer of such items as a carriage clock or retail voucher can have a significant effect on a consumer’s propensity to act.¹⁴ It is widely acknowledged within the industry that an incentive that offers deferred gratification (such as being financially better off later in life) is less effective.

¹⁴ Practitioner interview feedback: A major product provider offering a £20 Boots voucher persuaded over 40 per cent of those mailed to pay additional contributions to their Child Trust Fund. This contrasts with a figure of around 10 per cent without any incentive.

The supply of generic financial advice

5.1 This section, which is largely based on the interviews undertaken with practitioners, looks at how commercial organisations view the provision of generic financial advice, what advice is currently being delivered and what could be delivered in future. The commercial organisations considered exclude web-based businesses; these are considered separately in section 6. As the question of how advice is paid for is so critical in assessing the commercial viability of supplying it, different revenue models are considered first to set this in context.

Paying for advice: different revenue models

5.2 The principal question is whether consumers are likely to pay for generic financial advice and, if not, whether the provision of the advice can be made commercially viable.

Consumers paying for generic advice

5.3 The practitioner interviews discussed experience of asking consumers to pay for regulated advice. The feedback indicated that some consumers are happy to pay for advice, particularly those served by IFA firms at the higher end of the market. For these consumers, advisers will continue to provide advice, both generic and regulated, on a fee-paying basis.

5.4 Looking at consumers more broadly, the interviews revealed little direct experience of consumers' propensity to pay for generic advice specifically. However, drawing on their experience in the regulated context, practitioners felt strongly that consumers were unlikely to pay for generic advice, other than in very specific circumstances, and even if they were prepared to pay, it was unlikely to be at a level that would be commercially acceptable to the supplier.

Box 5.1: Quotations from interviewees

"Paying for generic advice is unrealistic in most circumstances - people don't understand margins so are unlikely to pay commercial amounts."

"Even those who say they'll pay for it generally haven't actually done so."

"Charging for all types of advice would lead to a large drop in demand."

"People don't really recognise the true value of advice."

"People are often disinterested even when offered a free financial review."

"The take-up rate of those paying for financial advice as a flexible benefit option (under their employer's flexible benefits scheme) is less than 1 per cent."

"There will be circumstances where consumers will be happy to pay. This is most likely to be event driven (e.g. advice prior to retirement)."

Third parties paying for generic advice

5.5 In some circumstances, a third party may pay for advice to be provided. An employer may offer this service to its employees, for example. This may be offered as an employee benefit, whereby external advisers are paid by the employer to provide the service. More commonly, the employer may offer it as a flexible benefit option (so the employee effectively pays for it) or invite a provider to offer it on a gratuitous basis (on the premise that the provider may get revenue from subsequent regulated advice or product sales).

5.6 The vast majority of employers do not currently offer access to generic advice either as an employee benefit or as a benefit option. It will be interesting to see whether the FSA's workplace seminars¹⁵ change the attitude of employers in offering these options and of the industry in delivering the service. This question is not considered any further in this report.

Revenue from product sales

5.7 Other than some wealthier consumers who are happy (and often prefer) to pay for advice, and those who will pay for it in specific event-driven situations, it is generally accepted by the financial services industry that most consumers will not pay for advice. The rationale for providing it, therefore, is that revenue will be generated from product sales (either in the form of commission for an IFA firm, or profit margins for the product manufacturer).

¹⁵ Financial capability in the UK: Delivering change; FSA, 2006

5.8 Thus, the viability of providing advice rests both on the propensity of consumers to purchase a product from the retailer following the advice given, and the margins available in the product pricing. This need to bundle advice into overall pricing is seen in other areas of retailing for consumer goods and services. The financial services industry's reported experience is that for most, if not all, products, the propensity to purchase is deteriorating while margins are becoming thinner.

Other revenue models

5.9 Other revenue models specific to web-based businesses are considered in section 6.

How the financial services industry views the provision of generic advice.

5.10 The practitioner interviews highlighted the way in which commercial organisations currently view the provision of generic advice:

- Although some elements of it may be delivered as part of their customer acquisition strategy or sales process, most organisations do not regard the provision of generic advice as a specific, identifiable activity.¹⁶
- In most circumstances, generic advice is provided as a by-product of other core processes and services, usually as the prelude to the provision of regulated advice or the sale of a product that is not regulated,¹⁷ rather than as an identifiable service in its own right. Even when it is delivered on a stand-alone basis, its scope is necessarily limited to particular types of advice and specific questions (see Appendix A).
- Banks, building societies and insurance companies concentrate on maximising profitable product sales. IFA firms focus on providing advice that leads to the payment of fees for that advice, or the payment of commission on successful product sales. Generic advice is delivered (whether as a stand-alone service or as a prelude to regulated advice), as a means of meeting these objectives. The commercial reality is that an organisation will only provide generic advice if it can demonstrate a business case for doing so.
- For these reasons, much of the industry views generic advice in the same way as financial education and financial literacy; participation in national and

local initiatives is funded as part of their corporate social responsibility budget and therefore does not have to be justified on normal commercial grounds.

- More generally, there is some impetus within the industry, particularly among the insurance companies interviewed, to explore whether a broader generic advice service could bring benefits to consumers and the industry. Much of that impetus appears to come from concerns about the existing business model, which is of particular concern to the insurance industry.

Box 5.2: Concerns about the traditional insurance business model

Many commercial organisations take the view that their traditional business model for manufacturing and distributing savings products in the mass market is unsustainable due to a combination of high distribution costs, unacceptable capital strain, poor persistency levels, the imposition of pricing caps, unacceptably low profit margins and concerns about regulatory risks. These factors are not mutually exclusive, but there is a belief in some organisations that addressing one of the most significant factors – high customer acquisition costs – may lead to a more viable business model.

The argument put forward is that the provision of generic advice would create stronger consumer awareness of their need to act, and would improve consumer confidence in the industry, leading to significant reductions in sales acquisition costs. However, this argument remains unproven and no feasibility pilot has yet been undertaken.

As a result of their concerns about the current business model, most insurance companies have given up their direct sales forces (offering face-to-face advice) and rely on IFA firms for higher value business. Concerns have also led many companies to focus on the manufacture and distribution of a limited range of profitable products (such as protection products) and to abandon some traditional products that are now unprofitable (such as stakeholder products). Participation in traditional savings markets (for those companies that have not already left the market) appears to be tactical and may be short-term.

This defines the landscape within which the provision of generic advice has been considered and explains why the thoughts of many insurance companies on this issue are not particularly well developed.

¹⁶ The exception is organisations that provide advice as an employer-sponsored benefit for employees (see section 5.5).

¹⁷ Products that are not regulated under the Financial Services and Markets Act 2000 and are therefore not covered by the FSA's conduct of business regulations.

What forms of generic advice are currently being delivered?

5.11 Most financial services companies will conduct some form of fact-find, either as a stand-alone exercise or as the first step in a regulated sales process. This is usually carried out in one of two ways:

Example 1: One large organisation conducts the fact-find as a stand-alone activity¹⁸ and presents this to customers as a financial review. Critically, the reviewer makes it clear to the customer that they will not be sold any products and will not be given anything other than generic advice. This message is reinforced to the extent that any subsequent regulated advice interview must be with a different adviser on another day.

Example 2: Another large organisation completes the fact-find as the initial stage of the interview with a regulated adviser. Although the process is similar to that in Example 1, any product recommendations and advice will immediately follow. In this case, the consumer is likely to view the fact-find as a necessary part of a regulated sales process rather than a stand-alone exercise. Generic advice emerges as a consequence at different stages of the process. This is the process adopted by most organisations.

5.12 Most major organisations also provide a telephone service to deal with generic inquiries, primarily for existing customers. Website information and self-help tools are also provided by most product providers. The commercial motivation for providing these services tends to be to attract customers (at relatively low cost) and as a general service to existing customers. These websites are of limited value in providing generic advice because their scope is insufficient to meet the wide-ranging needs of consumers.

5.13 The interviews also revealed the following findings:

- Many banks and building societies offer a savings fact-find providing generic advice, followed by unregulated product advice. As many savings products are not regulated, this allows organisations to deliver savings information and advice, without having to use the same processes and people as for regulated advice.¹⁹

- Existing customers can often access some elements of generic advice from their banks and building societies. However, only 29 per cent of consumers say that they would use their bank or building society as the first port of call for financial advice.²⁰
- Banks, building societies and insurance companies produce marketing brochures. However, rather than provide a generic advice brochure such as “All you need to know about different types of mortgages”, it is more common to produce a number of brochures “XYZ fixed rate mortgage”, “XYZ tracker mortgage” etc. Thus, although the consumer can glean a certain amount of generic information from these leaflets, the bias is clearly towards a description of the organisation’s own product.²¹
- Although most IFA firms concentrate on providing regulated advice, they are well-placed to provide generic information. Firms often produce generic leaflets such as “All you need to know about different types of mortgages” in the hope that providing this information will lead to regulated advice. However, they have only made themselves readily accessible as a source for providing certain types of generic advice. Even an existing customer is unlikely to contact his IFA for some types of advice unless it forms a part of a regulated advice process (ad hoc generic advice will be available to some customers, but this is only likely to occur when strong personal relationships exist rather than as a general rule).
- Many IFA firms offer generic advice specific to a defined customer need (annuity advice prior to retirement, for example). When offered to affinity groups with strong brand loyalty (such as the readers of a national newspaper), this service can be delivered very cost effectively, both by phone and face-to-face. It means that advice can be delivered to consumers with much lower income levels (and assets) than would normally be viable for an IFA firm. Interestingly, this type of service appears to work better for lower income groups than higher earners, presumably because they have fewer places to go for advice.

¹⁸ A number of organisations have rejected the idea of a stand-alone service because of a perceived duplication of effort, pointing to the need for the regulated process to repeat much of the data capture. Those advocating the stand-alone service appear to have minimised the degree of duplication, with no inconvenience to the customer, and to the satisfaction of the regulator.

¹⁹ Typically, customers are given information and advice at a generic level (“you should be considering a higher yielding savings account” or “cash ISAs are designed to...”). They may then receive generic advice in the sense that it is provider-specific (“I suggest you consider the XYZ account that pays higher interest than your existing account...”) even though it may not be regulated under FSMA.

²⁰ IFA Promotion Omnibus Research 2006

²¹ If a customer asks for an explanation of the different types of mortgage, he or she is likely to be handed a supply of leaflets or offered a meeting with an adviser. In reality, the customer is unlikely to get much impartial generic advice about mortgages. This observation applies to similar degrees with other products.

What different types of advice are currently being delivered?

5.14 Advice currently being delivered can be broken down by the four advice types already described.

Product-related advice

5.15 The issue for most banks, building societies and insurance companies is the degree to which bias can be removed from any advice and whether it is feasible to provide information and help on products other than the organisation's own. Clearly, there are specific forms of generic advice that could be provided without bias (explaining how specific product types work, explaining what to look out for etc), but in most circumstances truly impartial advice will not be given because of the inherent bias towards the company's own products. It is normal practice for IFA firms to give product-purchase advice because their independence ensures no product bias.

Life stage transition advice

5.16 Much of this advice would usually fall within a regulated process, so it is normal to provide generic advice as part of (or as a prelude to) that process. For example, if a customer is starting a family, he or she may need advice about matters such as protection against the death of one partner, planning for future expenditure or making a will. This generic advice could also extend to describing different types of term assurance or savings products. If it is delivered as a separate entity (without reference to the organisation's own products), this is clearly a valuable form of impartial, generic advice. Having received generic advice, it is likely that the customer will require product purchase advice. The organisation may be unable to meet the need for the latter at a generic level; in practice, regulated advice is usually offered at this point.

Crisis-related advice

5.17 Commercial organisations are not currently resourced to meet more complex needs unless this can be done within the normal regulated advice process and delivering advice relating to a financial crisis, such as severe debt problems, requires a different skill set.

Planning and budgeting advice

5.18 This type of advice may be delivered as part of a regulated advice process. However, help in accessing general tools and information (from websites, for example) is not usually delivered at present.

What forms of generic advice could be delivered?

5.19 None of the organisations interviewed had any plans to extend the range of generic financial advice services they offer. However, it is worth considering whether there are opportunities for them to do so. The author therefore explored possible options for this.

5.20 These options need to be assessed alongside a number of commercial considerations.

- As set out in section 5.7, the viability of providing generic advice will generally be measured by the potential profitability of the ultimate product sale (or the amount of commission or fees likely to be received).²²
- As set out in section 5.10, most organisations are reluctant to provide generic advice, except as a prelude to regulated advice, and rarely offer certain types of advice (such as debt advice or advice about another organisation's products) which are unlikely to lead to a product sale.
- Whereas some organisations, such as banks and building societies, offer a large number of products, others, such as insurance companies, provide a much smaller range; this limits their scope for achieving a product sale as a result of providing generic advice.
- Although there may be a commercial justification in providing generic advice in terms of customer retention or brand enhancement, these benefits are difficult to measure and are seen as secondary considerations by most organisations.²³
- The means of delivering the advice will depend on the existing infrastructure of the organisation. For example, although banks and building societies have a branch network, which lends itself to face-

²² Most organisations measure commercial viability using a yardstick based on a customer's income or assets. This yardstick varies by organisation, organisation type and delivery channel. For example, a bank may be prepared to give unregulated savings advice face-to-face in their branches for incomes in excess of £15,000 and regulated advice for incomes in excess of £20,000. An IFA firm may only give regulated advice face-to-face on an individual basis for incomes in excess of £40,000, but may reduce that threshold to £25,000 for advice delivered to a group of people. Any organisation may deliver advice by phone for income thresholds at a lower level than required for face-to-face advice.

²³ One large bank offers a stand-alone generic advice service in the form of a financial review. It believes that the process allows better customer engagement, resulting in higher conversion rates and retentions. It is not clear whether the effect on conversion and retention rates has been measured, nor is it clear whether the relative effects of using different sales processes have been analysed. Notwithstanding whether this analysis has been undertaken or not, the bank appears happy with a process that has stood the test of time and has been conducted in significant volumes (over 700,000 reviews during 2004).

to-face delivery (although the telephone is equally viable), insurance companies are often constrained from providing advice in this way due to their lack of 'high street presence' and the small size of the sales force. For IFAs, face-to-face advice tends to be the preferred delivery method and is limited only by the number of advisers and their geographical spread.

- 5.21 A business case can usually be made for providing generic advice in the form of a 'financial review' for customers and there may be scope for creating additional credibility by positioning this as a stand-alone service, particularly if this conformed to industry-agreed standards and codes of practice. Although the wider scope to provide comprehensive generic advice services appears to be limited, there may still be some potential opportunities for extending the provision of generic advice beyond 'financial reviews'. These are set out below.

Insurance companies

- 5.22 It can be profitable to provide generic financial advice to the increasing numbers of policyholders 'orphaned' by IFAs, provided sufficient product sales ensue and less costly delivery methods are used.²⁴ For example, a service has been developed using the telephone which focuses on meeting specific advice needs (providing an annuity comparison service, for example) and more general needs (such as a financial health check). Moving away from the traditional face-to-face delivery model has reduced costs, providing an opportunity to deliver a limited generic advice service to a broad range of policyholders, and extending reach beyond those previously serviced by IFAs to those acquired by direct sales forces.
- 5.23 Those companies that are most successful at telephone-based delivery use unregulated 'trusted sense makers' to make initial customer contact, provide generic advice and act as a filtration agent to ensure that regulated sales are only conducted where appropriate. The rationale for this is that the trusted sense maker (rather than the regulated adviser) becomes the preferred point of contact for the customer seeking generic advice. Given the lower costs associated with this, everything other than

regulated advice is delivered by the 'trusted sense maker'. This delivery model could potentially result in mass market access to generic advice at a much lower income threshold than that currently served by IFAs. Commercially, however, it still ultimately depends on product sales resulting, inevitably leading to a stronger focus on more profitable customers with the means to make further purchases.

IFA firms

- 5.24 Similarly, there could also be opportunities for IFA firms to move from delivering regulated advice, primarily on a face-to-face basis, to using the telephone to provide generic advice as an important initial part of the advice process.
- 5.25 Generic advice using the telephone and face-to-face advisers is also viable for affinity groups and employees in large firms. An example of this is a service developed for a large affinity group to provide generic annuity advice and comparisons. Providing generic advice is viable in this case because of the higher conversion rates and lower sales costs.
- 5.26 Their impartiality also enables IFA firms to attract customers through internet propositions, giving access to information, tools, generic and regulated advice, something that has been successfully implemented by a small number of firms.²⁵ The potential for growth in this area is considered further in section 6.

Banks and building societies

- 5.27 Their branch infrastructures enable banks and building societies to deliver face-to-face advice on a cost effective basis. One option for providing a broader range of generic advice services could therefore be to establish a 'money advice centre', which is clearly separated from the organisation's normal activities, to deliver planning reviews alongside a wide range of information and advice with no obvious bias.²⁶ The following sections consider the viability of such a service.

²⁴ Some policyholders are orphaned because they no longer have an IFA; many more have effectively been orphaned because most IFA firms cannot, or are not in a position to, deliver a cost effective service to those clients.

²⁵ One commercial firm offers a fully integrated advice and transaction service on a face-to-face, web and telephone basis, providing access to information, tools, generic and regulated advice. It offers 'execution only' and regulated advice services. Consumers can engage with the firm in the way that best suits them. Phone engagement is at two levels: the 'initiators' who provide generic advice and (where appropriate) refer customers to a regulated adviser, and the regulated advisers who deliver advice by telephone or face-to-face.

²⁶ It is assumed that delivery would be by a bank or building society simply because of their existing branch infrastructure and face-to-face capability. It seems unlikely that insurance companies would find the proposition attractive because they appear to have no other commercial reason for providing face-to-face advice and do not have 'customer facing' branches. IFA firms have the face-to-face capability, and the larger firms may have some branches, but the cost of delivering generic advice is unlikely to be attractive to them, other than for high value customers.

5.28 The commercial justification would be that:

- Planning reviews would result in regulated reviews and increased sales.
- The goodwill created by providing a wide range of information and generic advice would stimulate new business and/or better retention of existing business.

5.29 The 'money advice centre' could be located in a corner of a branch (assuming space is available) or in a separate building. The advantages of locating within a branch would include potentially lower costs (compared to being located in a separate building), additional lead generation opportunities, lower customer acquisition costs and enhanced brand loyalty. The organisation might also expect to get a disproportionately high percentage of any accruing new business (bearing in mind that competitors may also benefit from the advice being given).

5.30 However, the need for impartiality may limit the extent to which an organisation's existing premises and brand could be used to deliver the service. On the other hand, having separate premises or a different brand would add significantly to costs and make it less likely that the organisation would gain from the goodwill generated. Significant recruitment and training would also be required and the need to retain tightly controlled processes may not fit well with customer needs.

5.31 From a commercial viewpoint, the volume and profitability of sales is likely to be the principal measure of success (although less quantifiable benefits such as the effect of customer retention and brand awareness should also be considered). Although some customers will go on to seek regulated advice (and buy products), a comprehensive generic advice service must start from the premise that the majority of inquiries will not directly result in a product sale. Given that a high proportion of customers would be unlikely to buy a product or seek regulated advice from the same organisation, it therefore seems unlikely that the cost of providing the advice would be compensated by increased revenue.

5.32 Even if some of the issues about brand and location could be addressed, there appear to be a number of practical difficulties in delivering the service and commercial drivers seem to be weak. Overall, therefore, it is difficult to argue with the conclusions of those senior executives within the industry who have already considered offering this type of service and have concluded that it is not commercially viable.

Providing generic financial advice: A new commercial organisation?

6.1 If traditional financial services companies appear unlikely to provide a comprehensive generic advice service, it is worth considering whether a new business model could be developed utilising internet and telephone-based advice. The proposition to be considered is whether a commercially viable service could be established to provide a broader range of generic advice, accessible to a wider cross-section of the population. The following sections are based on views expressed by a number of practitioners from internet businesses and the author's own practical experience of working in this area.

Background and principles

6.2 The service would be branded as independent and impartial. It would aspire to being the first and easiest point of contact for consumers who need generic advice and to becoming a 'centre of excellence' for the provision of generic advice. Impartiality would be attained by unbiased presentation of information and advice; it would not provide products or regulated financial advice. In effect, therefore, it would act as a 'trusted sense maker', referring consumers to other organisations to fulfil the role of 'persuader'.

6.3 It is not within the scope of this report to consider public-private funding initiatives, so the assumption is that the service would be delivered on a commercial basis. To stimulate demand, consumers would not pay explicitly for the service (although there may be aspects of the service that would warrant a fee and for which consumers would be happy to pay). Revenue would therefore largely be generated from product providers and advisers in a way that does not prejudice the integrity and impartiality of the service.

Service delivery

6.4 Any commercial delivery model has to balance the cost of providing the service with the revenue generated, without incurring unnecessarily high financial risks. This is particularly important, as in this case, if demand is expected to grow slowly (demand for this service would need to be triggered and would continue to be event driven for the foreseeable future).

6.5 In devising a possible business model, it is sensible to draw on learning from existing services. The model suggested in this report builds on the successful elements of existing internet business models. These businesses are fronted by websites that offer access to information, quotations, product comparisons and transactional capabilities. Income is generated through referrals, online purchases and advertising. The

following sections consider these business models in some detail.

Existing internet business models

6.6 Most current financial websites are designed to attract people who are confident or self-sufficient in financial matters (neither of which describes financial capability among the mass market of UK consumers). Each site makes a conscious decision about what type of service it offers (greatly influencing the type of person who will feel comfortable using it) and there is significant variation between them in relation to:

- The amount of generic information, advice and self help tools available.
- Access to unregulated telephone help and advice (the 'trusted sense maker').
- Access to regulated advice.

Different types of sites

6.7 In addition to the large number of banks, building societies, insurance companies and IFA firms that offer elements of financial advice on their own websites, the main types of site are:

- **'Money advice' websites:** Examples of this type of website include the FSA's *Moneyaidbare.info* and NIACE's *Moneymatterstome.co.uk*. Some of these sites receive funding from providers (Prudential, for example, supports *Moneymatterstome.co.uk*) but they are not intended to be commercially viable. Although they are a useful source of advice, most of these sites are accessed by relatively few people (comparative internet traffic statistics are shown in Appendix B). By their very nature, these sites provide a service without any intention (or need) to generate revenue.
- **Media information websites:** Most of the national newspapers have websites offering a range of services including product comparisons, generic information, transactional capabilities, news, market reports, portfolio tracking, interest calculators, currency converters and other tools. The style and content of these sites reflect the readership of the newspapers that own them.
- **Financial comparison websites:** This sector is dominated by companies such as *Moneysupermarket*, *Moneyextra*, *Uswitch*, *Confused* and *Moneyexpert*. The websites are the public face of the companies that own them. Because of the nature of their business, they tend

to be authorised and regulated by the FSA. The sites vary from purely transactional platforms (with minimal generic information), to information-rich, highly interactive sites.

Box 6.1: Financial comparison websites

A large number of websites provide financial comparison services, many of which specialise in certain products (for example, life assurance quotes or mortgages). Although these websites have many similarities, they also differ in important ways. These differences are best illustrated by looking at the service proposition of three of the most visited sites.

Moneysupermarket is a volume, transactional business model, offering consumers product comparison tables with minimal generic information. It is targeted at consumers who know what they want (for example, “I want a 0 per cent credit card”) and do not need information about the pros and cons of different credit card types. The user can compare different rates and terms and conditions, buy online or be given direct access to the product provider’s website. A telephone helpline is provided for products likely to require advice (for example, mortgages) but more generic help and advice is conspicuous by its absence. The focus is clearly on transactions. Advice appears only to be offered where regulated advice is likely to be required and income can be generated from that advice.

Moneyexpert is also a transactional model, but provides information and generic advice alongside the product comparisons. For example, it includes ‘An impartial guide to cheap loans’ and other generic information alongside its loan comparison tables. The site also contains financial news feeds and product guides. The site does not offer access to telephone advice, even for more complex products. At best, it recommends that users seek financial advice, without offering any obvious link to an adviser. This site effectively offers an ‘internet only’ information and transaction service.

Moneyextra not only offers transaction capabilities but is also designed as a low cost servicing platform. Part of the AWD Group (a European IFA firm), the website acts as a hub for a range of services to its clients. The site offers similar transaction capabilities to the other major players, but is particularly rich in generic information, advice and self-help tools. It also offers a portfolio investment service that includes online share dealing. The site provides access to phone advice, equally split between those providing unregulated information and help, and those providing regulated advice. It also provides access to face-to-face advice through its traditional IFA businesses.

The revenue model for these sites

- 6.8 These websites generate income through referrals, online purchases and advertising. All are important, with their relative value depending on prominence and visibility, although it is worth noting that 90 per cent of revenue for Moneysupermarket.com (the most visited financial comparison website), is generated by referrals and online purchases.
- 6.9 The highest revenues from generic advice websites are generated by consumers looking for information about motor insurance. Additional revenue is generated from those seeking information on mortgages, credit cards, loans, home insurance and, to a lesser extent, life insurance, pensions and savings. Little revenue is earned from investment business, other than by websites that specifically offer transaction and portfolio management services.

Box 6.2: Website revenue models

Financial websites generate income through referrals, online purchases and advertising. A **referral** can take a number of forms including:

- Referrals to a regulated adviser at the behest of the customer. Typically, mortgage advisers will pay £20 - £200 for a referral. Referrals to an IFA typically attract ‘commission share’ of around 20 per cent (although different fixed fee structures are equally viable).
- A ‘click through’ to a product provider’s website. This usually occurs once a consumer has viewed different comparisons and is interested in seeking further information directly from the product provider. Providers will pay as much as £1 - £5 per click for customers interested in particular products (the price reflecting the margin available for customer acquisition in the product pricing).

An **online purchase** (where a product is bought directly from the website) creates revenue by way of a fee from the manufacturer of that product. Fees vary between products, but are set a level much higher than that for a click through as business has actually been written, rather than having potential to be written. For IFA websites, income is also generated through normal IFA commission.

Advertising can also take a number of forms including:

- Standard adverts which generate fees based on prominence, site traffic and other normal advertising criteria.
- ‘Pay per click’ adverts whereby service and product providers compete for search engine prominence.

Although more commonly viewed on *Google* (and other search engines), many websites have now embedded this search functionality into their own sites. Typically, a site might present a list of product propositions (under 'best buy' or 'top ten') which generate income every time a customer clicks on the advert. Providers will pay as much as £1 - £5 per click for customers interested in particular products.

Through a combination of these (and other) revenue generating activities, the most successful sites can earn between £2.50 and £3 per visitor. However, most sites earn considerably less as they have not optimised their income-generating capabilities and tend to focus more on providing information and help than on referrals and transactions. Turnover for the most successful financial comparison businesses can exceed £50 million per annum (although a percentage of that is likely to be earned through offline activities such as regulated advice).

Current internet access and usage for financial services

6.10 Although information about the use of these sites is fairly fragmented, the evidence shows that financial information is being accessed online by an increasingly broad spectrum of the population, with partnerships between financial websites and heavily trafficked non-financial sites bringing financial service propositions to large customer bases:

- In July 2005, 52 per cent of UK internet users used online financial services (up from 21 per cent in 2004).
- 11.5 million people manage their bank account online (of which 53 per cent have requested or completed an application for a financial product).
- Motor insurance and credit cards are the most popular products purchased online; 1.3 million users bought new motor insurance online in the year to July 2005 (although this represents only 22 per cent of the 6 million who researched motor insurance online).
- Financial comparison and IFA sites have tended to attract more financially capable, self-sufficient sectors of the population. However, recent partnerships between *Moneyextra* and The Sun newspaper and Microsoft MSN suggest that penetration can be made at lower income levels.
- Media information sites are likely to attract a greater spectrum of consumers, broadly reflecting their readership profile, which suggests that their service is reaching the C and D sectors of the population.

6.11 Current internet access and use of financial services websites is highlighted in Box 6.3.

Box 6.3 Internet access and use of financial services websites

Socio-economic group	Number of people	Proportion using Internet	Number of people using Internet
AB	12 million	95 per cent	11.4 million
C1	14 million	84 per cent	11.7 million
C2	9 million	47 per cent	4.2 million
DE	12 million	23 per cent	2.7 million

Visitors to financial websites

6.12 Although there is little publicly available information about the number of visitors to these sites, approximate figures can be deduced (see Appendix B for further analysis):

- The financial comparison sites appear to get over 2 million visitors each month, with *Moneyextra* claiming to have over 500,000 visitors per month (at least three other financial comparison sites are believed to exceed this).
- The most visited of the media information sites, *Thisismoney.co.uk*, (owned by Associated Newspapers Ltd) is estimated to get between 500,000 and 1 million visitors per month.
- The remaining media information sites such as *Sunmoneyextra.com* (the money section of The Sun newspaper website) and *Mirrormoneyexpert.com* are estimated to total in excess of 1 million visitors per month between them.
- Other websites (including the information sites) get a small fraction of these visitor numbers.

6.13 Even allowing for the fact that some consumers will visit more than one site and many people will make repeat visits during a year, these figures suggest that a significant number of people (at least 2 million every month and 10 million every year) are already accessing these financial information websites.

Future prospects for web-based financial services

6.14 Although there is still a significant bias towards higher income, self-sufficient consumers, this is starting to change. In particular, the early internet adopters are now fully transactional online, while increasing numbers of people are accessing it for information and advice. Past inhibitors such as limited broadband penetration and concerns about security are changing,

increasing access and making services more user-friendly. Accessibility will continue to increase in future as more homes and public facilities (such as libraries) have access.

- 6.15 A bigger question is whether the financial services industry will engage effectively with the population to enable its services to be accessed. It is the author's view that most current financial websites are designed in a way that results in them engaging with only a limited proportion of the population. The experience of the Sorted website in New Zealand²⁷ shows that it is possible to engage a significant percentage of the population by means of simple, straightforward help and advice. However, it would require a very significant marketing spend to gain a comparable impact in the UK, the population of which is nearly 15 times larger than that of New Zealand.

How would the service delivery model work?

- 6.16 For the financial comparison and media information sites, the highest revenues are generated from consumers seeking information on motor insurance, although significant revenue is also generated from credit cards, loans, mortgages and home insurance.
- 6.17 Research published by the Resolution Foundation shows a high penetration among its target group of people on low to moderate incomes of basic financial products such as motor and home insurance²⁸ (penetration of these products is even higher among higher earners). It seems reasonable to assume that this group's need for advice applies to these products and it is therefore feasible to offer them an internet-based proposition that not only provides generic advice, but also generates income.
- 6.18 Having engaged successfully with the mass market of consumers for 'compulsory' purchases (such as motor and home insurance), the aim would then be to become a 'trusted sense maker' for all generic advice. Consumers would be expected to seek generic advice for mortgages, resulting in revenue being generated from referrals to mortgage providers and advisers. Similar principles would apply for credit cards and life assurance. Over time, the service would aspire to engage with the consumer on longer term needs such as savings and pensions.

- 6.19 From a commercial perspective, the attraction of the web-based proposition is that, once the required functionality has been built and referral mechanisms put in place, the cost of delivering the service is marginal. The cost lies in attracting consumers to the website and any resource (such as telephone advice) necessary to support it.

Implementation principles

- 6.20 As the website is critical for underpinning the revenue model, it is likely that the service would initially attract ABC1 consumers. The strategy would be to broaden that reach incrementally, as quickly as possible. The weakness of demand and the timescales necessary to change consumer behaviour and perceptions dictate incremental growth as the best option; the challenge would be to create sufficient elasticity by utilising the website (thereby keeping the capital costs of implementation low) to achieve maximum reach.
- 6.21 Once a basic credibility has been established, extended reach would be best achieved by strategic partnerships which create access to new customer bases. Further elasticity would be generated by introducing a telephone service to support the web. This would be demand-driven, initially utilised by consumers using the internet before, over time, becoming an alternative point of entry to the service. The development of interactive TV technology could also allow consumers to engage with it 'face-to-face'.
- 6.22 Although the website would remain the cornerstone of the delivery mechanism and the primary means by which revenue is generated, the telephone would provide support for users. Its effectiveness would be measured in terms of customer satisfaction, customer retention and repeated internet visits.
- 6.23 It would also be utilised by non-internet users. Only those being referred for advice would generate income. Revenue generated from other customers could support this segment, the size of which could be managed by controlling how quickly the telephone service is advertised to non-internet users. Once again, there would be commercial thresholds, and practical experience would be required before these could be determined with any degree of certainty.
- 6.24 The service would have a market-driven culture, keen to pilot and experiment with different ways of engaging

²⁷ Lessons from New Zealand's Retirement Commission for UK policy on financial awareness and advice; Pensions Policy Institute/Resolution Foundation, 2006

²⁸ Closing the advice gap; Resolution Foundation, 2006

with consumers. Over time, this approach would help to change public perception, with more preventative rather than remedial action being taken. This combination of increasing internet usage, building credibility and increasing awareness of the telephone service would be expected to 'creep' to a significant percentage of the population.

- 6.25 The value of this business model is that, as long as consumers can be attracted to the website, different levels of revenue can be generated from all customers. Undoubtedly the higher income groups would generate more income, but there is no reason to believe that revenue could not be generated from lower income groups as well. Inevitably, there will be a commercial threshold below which it would not be commercially viable to offer advice. That threshold is difficult to estimate but is likely to be much lower than current levels.

Prospects of success

- 6.26 The commercial success of a number of financial comparison websites suggests that it could be viable to extend their current offerings to a broader cross-section of the population. The model proposed seems to have the most realistic chance of success if the principles of the revenue model are accepted and sufficient demand can be generated. Those with first hand practical experience of implementing existing web-based business models generally believe that the proposition and revenue model are sufficiently elastic to meet the needs of a much broader population.
- 6.27 However, since these hypotheses are based on an extrapolation of limited existing experience, there is bound to be an element of doubt. More detailed work would be necessary to establish the commercial sensitivities to offering such a broadly-based service. Much would depend on whether demand could be generated and on consumers behaving differently.

Conclusion

- 7.1 This report has tried to answer a number of questions. The evidence collected provided no hard and fast answers to many of the questions because few organisations have given much commercial consideration to the provision of generic financial advice. It did, however, provide a clear picture of the current supply of generic advice, strong indications about attitudes towards it among commercial organisations and some pointers on the potential for increasing provision in the future.
- 7.2 As the interviews with practitioners demonstrated, most financial services organisations do not view the provision of generic financial advice as a specific activity and, in most cases, provide it as a prelude to regulated advice. Thus, although many organisations provide fact-finds or similar services, the amount of generic advice currently being delivered by the financial services industry is limited.
- 7.3 Banks, building societies and insurance companies tend to encourage (and sometimes provide incentives) to their staff to sell their own products. With limited knowledge of other available products, it is therefore difficult for them to provide more broadly-based advice. Generic advice may also lead to a customer taking action that results in reduced profitability for the organisation. There is therefore little commercial incentive for companies to offer generic advice, other than as a limited prelude to regulated advice.
- 7.4 Despite this, there is some evidence that financial services organisations could adapt their delivery models to extend existing generic financial services, on a limited basis, to a wider group of people. For insurance companies and IFA firms in particular, recognising the need for a ‘trusted sense-maker’ and moving to a telephone-based delivery model could provide opportunities to extend their services beyond their current reach.
- 7.5 However, as the interviews showed, establishing a comprehensive generic advice service is not a viable commercial prospect among current providers. There could be some potential for a new organisation to deliver a more broadly-based service, reaching a wider cross-section of the population, via the internet and telephone. However, more detailed work would be needed to assess whether this could be pursued as a commercial proposition.

- 7.6 In terms of the four main categories of advice identified by the Resolution Foundation, provision can be summarised as:

- Product-related: for banks, building societies and insurance companies, it is difficult for providers to meet demand for impartial advice due to the degree of bias implicit in retailing their product ranges. On the other hand, IFAs do provide this type of advice because they have no implicit product bias.
- Life stage transition: most advice of this type falls in the regulated space so when generic advice is provided, it is usually as part of, or as a prelude to, a regulated product sale.
- Crisis-related: commercial providers are not resourced to provide this type of advice, which will continue to be delivered by existing organisations such as citizens advice bureaux and National Debtline.
- Planning and budgeting: again most advice falls within the regulated advice process, usually by establishing affordability as part of the ‘fact find’ process.

- 7.7 Overall, therefore, the opportunities for commercial organisations to provide generic financial advice are likely to remain limited. Looking at different sectors of the population in turn:

- People on very low incomes (receiving more than 20 per cent of their incomes in welfare benefits) will continue to be poorly served by commercial organisations. Whilst those with internet access could find help from financial comparison and media information websites, the overwhelming majority will find this difficult, unless propositions are made more engaging. Some may prefer to access help from their bank if they have an account, although in many cases, this is likely to be heavily constrained. Citizens Advice, National Debtline and others are therefore likely to continue to be their main point of access, with advice largely restricted to crisis management.
- Those in the Resolution Foundation’s ‘target’ group on low to moderate incomes (on below median earnings but receiving less than 20 per cent of their income from welfare benefits) will also continue to be poorly served by commercial organisations. Making web-based advice propositions more engaging could increase access to some extent

and, at the higher end of this income group, customers should be able to access some elements of generic advice through their bank or building society.

- People on medium incomes (£25,000 - £45,000), were once broadly serviced by IFAs and direct salesmen but have been 'orphaned' by direct sales organisation closures and IFA firms moving to higher income customers. This income group is more attractive to the banks, so some elements of generic advice should be available from them. The services of a strong web-based advice proposition could also be attractive to this group.
- Higher earners should continue to be well served by commercial organisations, as they are attractive to banks and the main users of financial advisers for specialist advice. This group already uses the financial comparative websites for its research, advice and some product purchases.

Appendix A: Advice questions

This appendix looks, from the viewpoint of the supplier of generic advice, at analysis of mortgage advice requested by consumers from the www.mortgages.co.uk website who asked to be telephoned by an adviser. The questions have been categorised under three of the four different types of advice identified by the Resolution Foundation (crisis management not being relevant to these examples). It is important to note that although the consumers sought 'advice', what they really needed in many cases was information; highlighting that advice and information are synonymous in the eyes of many consumers.

Product Purchase

- *What are the differences between a fixed and variable rate mortgage?*
- *What sort of product details do I need to consider?*
- *Are there likely to be any differences on repayment of the mortgage?*

These can all be answered at a generic level.

- *What is the difference between XYZ and ABC fixed rate mortgages?*
- *I'm thinking of getting a ABC tracker mortgage, are there better ones around?*

For banks, building societies and insurance companies, these questions would be difficult to answer impartially, whereas IFA firms are well-placed to answer them because of their impartiality.

Life stage transition

- *What multiple of earnings can you normally borrow?*
- *How do you go about getting a mortgage?*
- *What are the different types of mortgage?*

For banks, building societies and insurance companies, these could be answered at a generic level, although advice would be biased towards the organisation's own products. IFA firms could answer these questions impartially

- *I've been made redundant, will I be able to get a mortgage?*

For banks, building societies and insurance companies, this is likely to be answered with respect to the individual

organisation. IFA firms could answer these questions looking across the market.

Planning and budget setting

- *What sort of deposit is normally required?*
- *How much will it cost in fees?*
- *What's a £100,000 mortgage likely to cost?*

For banks, building societies and insurance companies, this is likely to be answered with respect to that individual organisation's products. IFA firms could answer these questions looking across the market.

- *Where can I go for mortgage advice?*
- *What different types of adviser are there?*
- *Do I need to visit each building society in turn to see whether I can get a mortgage?*
- *What sort of credit checking is done?*

For banks, building societies and insurance companies, this is likely to be answered with respect to that individual organisation. IFA firms could answer these questions looking across the market.

Appendix B: Financial website visitors

Although there is little publicly available information about the number of visitors to financial websites, approximate figures can be deduced from other available information. *Alexa*²⁹ offers a service that ranks websites based on the number of visitors and the pages each one accesses. This provides a relative assessment of the popularity of each site.³⁰ Although the number of visitors cannot be established accurately from these rankings (because rankings also take account of the number of page impressions), they do give a reasonable indication of the volume of visitors when used in conjunction with other published figures.

Financial comparison sites

Moneyextra is ranked the 16,404th most popular site by Alexa and claims to have over 500,000 visitors each month.³¹ Using this as a benchmark, there are at least three other financial comparison sites with a higher ranking, so it is reasonable to assume that these sites will have at least as many visitors. For example, *Moneysupermarket* is ranked 5,255th, so it can be assumed that it has between 500,000 and 1 million visitors each month. *Confused.com* is ranked 39,068th so probably gets around 200,000 visitors each month. A site known to the author is ranked 87,153th and gets over 100,000 visitors each month.

Media information sites

The most visited of the media information sites, *Thisismoney.co.uk* (which is owned by Associated Newspapers Ltd and part of the Daily Mail, Mail on Sunday, Evening Standard and Metro Media Group) is ranked 11,061th. This suggests that it gets between 500,000 and 1 million visitors a month. *Sunmoneyextra.com* (the money section of The Sun newspaper website) is ranked 18,840th and probably gets around 500,000 visitors. The Mirror newspaper has a similar website, *Mirrormoneyexpert.com*, which is ranked 37,245th, suggesting that it gets 250,000 and 500,000 visitors per month.

Money advice sites

Money advice sites tend to generate much lower levels of traffic. For example, the ranking of the FSA's *Moneyaidbare.info* is 1,195,046th. *Moneymatterstome.co.uk* is ranked 1,867,246th. It is difficult to estimate the number of visitors from these rankings, which will be relatively insignificant compared with the major media information and financial comparison sites.

IFA Internet sites

Relative to other financial information sites, IFA sites tend to get relatively small numbers of visitors. A notable exception is *hargreaveslansdown.co.uk* which is ranked 78,708th, suggesting traffic of around 100,000 visitors each month.

²⁹ Alexa is a company that specialises in providing Internet tools and information

³⁰ Ranking figures as at June 2006

³¹ See *Moneyextra* website

Appendix C: Contributors to this report

The organisations and individuals that have contributed to this report are listed below. The views expressed in this report are those of the author and do not necessarily reflect those of the organisations and individuals listed.

AEGON
AIFA
Association of British Insurers
AWD Moneyextra
Axa Sun Life
Beachcroft Regulatory Consulting
Bernard Brown (a sole trader consultant)
The Children's Mutual
Citizens Advice
Clarity
Deloitte & Touche LLP
Department for Work and Pensions
Financial Services Authority
Forester Life
FSN Ltd
Hargreaves Lansdowne
HBOS
Hewitt
Higham Dunnett Shaw
HM Treasury
HSBC
Legal & General
Lloyds TSB
Mercer
National Debtline
Nationwide Building Society
Norwich Union
Origen
Prudential
Royal Bank of Scotland
Paul Smee (in a personal capacity)
Standard Life
Towers Perrin
TPAS
Watson Wyatt

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Financial Capability in the UK: Delivering Change, FSA, March 2006
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NOP Internet User Profile Survey
National Statistics Office (Internet access data)
IFAP Omnibus Survey 2004 and Omnibus Research 2006



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