

Resolution Foundation response to the Thoresen Review call to evidence

Introduction

The Resolution Foundation welcomes the opportunity to contribute to the Thoresen Review's investigation of how to design and create a national generic financial advice service. We believe such a service, targeted at those on low to median incomes, is a crucial tool in improving levels of financial capability and delivering a host of benefits to the individual consumer, the Government, and the financial services industry.

Since its creation in October 2005, the Foundation has been focusing on how people access and use the financial services system. We identified very early on the existence of an "advice gap" for those on low to median incomes, a gap in advice provision which left those earning below median incomes but who were more or less independent from benefits, around 15 million people, potentially vulnerable to the consequences of poor decision making and low levels of financial capability.

The Foundation conducted extensive primary research and commissioned secondary research into the financial well-being of this group and their use of financial products. We found that, like the majority of the UK population, they have fairly low levels of financial capability. Yet unlike higher earners, the individuals in this income group do not have the cushion of wealth and assets to fall back on should they make poor financial decisions. In addition, this group do not have access to any impartial financial advice, with the exception of crisis/debt advice. Yet 60 per cent of the low to median earners we spoke to said they would use a financial advice service if it were available.¹

Based on the findings from a survey, a series of focus groups and mapping of the current advice landscape, we proposed a delivery model for a national generic financial advice service and some associated costs. This included:

- An advice service delivered principally over the telephone, with an accompanying website and complemented by a limited face to face service.
- Advice consultations providing simple, personalised and independent generic financial advice, in short bite sized sessions (10 to 15 minutes).
- Running costs of £35-£45 million per annum based on a targeted take up of 2 million low to median income consumers per year.

This work was published in our *Closing the advice gap* report, which we put forward for consultation and received over 40 responses from the third sector, the financial services industry and their representative bodies. A summary of these consultations was published in *Closing the Advice Gap - Analysis of consultation responses*.

We have since commissioned Deloitte to carry out detailed modelling on the benefits to individual consumers, the state and the financial services industry of improved financial decision making via the provision of a national financial advice resource, the findings of which have been published in *A National Dividend* and *The Advice Gain*.

¹ *Closing the Advice Gap*, Resolution Foundation 2006

Our response draws on these various pieces of research and consultation work, and we base our responses on what we believe is the preferred delivery option: a new advice service which is principally telephone based and targeted at low to median earners.

We have only responded to those questions in the “Strategy” section of this call to evidence where we feel we can make a useful contribution thanks to our research and experience in this field. We have also grouped certain questions where we judged a single coordinated response was more appropriate.

Key messages

- The Thoresen Review Team must, through the review process, clarify and communicate how generic financial advice works in practice. Illustrating the limitations and possibilities of generic advice in different real life circumstances is just as important as deciding on a single definitive explanation of the term.
- The Foundation believes the Review Team must develop the model of a new generic financial advice service which delivers advice primarily over the telephone, but with an accompanying website and limited face to face provision.
- The new service should be universal, but should target low to median income groups. It should refer consumers on to services with technical expertise or regulated advice sources when their enquiries fall outside of the remit or scope of generic financial advice.
- The Foundation believes that the existing infrastructure, in the form of the commercial and third sectors, does not have the capacity or the appropriate brand to deliver such a generic financial advice service.
- The marketing and branding of a new service are crucial and need to be considered with care. Key brand messages must include impartiality and trust, and emphasise the service as a “normal” source of advice and not something reserved for those in financial crisis.
- The Foundation believes that using intermediaries in the community and capitalising on trust relationships with GPs, youth workers and other professionals to act as referees to the service will be effective in targeting hard to reach groups and promoting a sense of trust and impartiality.
- Generic financial advice has the capacity to change long term financial behaviour, and the Foundation believes a new service should have as its main objective making consumers act on advice and change their behaviour. In order to achieve this, the way in which advice is delivered must take into account normal human behaviours – such as a tendency to under-value long term gains, and make sub-optimal choices based on habit or apathy. The Foundation believes the way advice is delivered is as important as the content of the advice itself.

- The Foundation believes a generic advice service needs to be overseen by a new independent body, which has the wider remit of overseeing, coordinating and championing financial capability more generally.
- A generic financial advice service should be funded jointly by the Government and the financial services industry, as two stakeholders with a direct interest in promoting the financial capability of the UK population. Although many of the benefits are difficult to quantify, the Foundation's work on this issue to date demonstrates that considerable benefits may exist on both sides. Advice should, however, be provided to the consumer free of charge to maximise up take and rule out any association with sales or a commercial purpose.

Our Response

AS1. What generic financial advice services are you aware of in the UK? Are these provided by the public sector, the private sector or the voluntary sector?

AS2. For the services in AS1 please give some information on structure (e.g. funding, governance, scope of service, geography, legal basis of advice, scale constraints etc.)

When the Foundation first began investigating the need for a new generic financial advice service, McKinsey & Co undertook a range of pro-bono research on our behalf. Part of that research was a mapping exercise in which they identified existing services currently offering free financial advice and some of their key characteristics, such as their budget and coverage. This list is, of course, not exhaustive, but we reproduce a summary of their findings below.

Organisation	Services	Channels	Funding/budget	No. of advisers/cases
CABx	<ul style="list-style-type: none"> • Tailored, in-depth advice and support on wide range of issues (debt, civil rights, benefits, housing, employment, etc.). Mainly remedial advice. 22% of issues involve mostly financial advice 	<ul style="list-style-type: none"> • Website • Telephone • Face-to-face through 475 offices* and offsite 	<ul style="list-style-type: none"> • Citizens Advice: £36m • Local offices?: £129m (48% from local authorities) 	<ul style="list-style-type: none"> • 4,932 FTEs, incl. 1,221 specially trained to give financial advice • 5m issues* a year
TheSite.org	<ul style="list-style-type: none"> • Detailed advice for young people (16–25) on relationships, finance, health, housing, drugs, etc. 	<ul style="list-style-type: none"> • Website 	<ul style="list-style-type: none"> • YouthNet (charity) • Vodafone, Sky, Lottery Fund, Dixons • £4.8m 	<ul style="list-style-type: none"> • No client-facing staff
Credit Action	<ul style="list-style-type: none"> • Advice on debt 	<ul style="list-style-type: none"> • Website • Face-to-face 	<ul style="list-style-type: none"> • N/a • £0.2m 	<ul style="list-style-type: none"> • 6
MoneyInfoMaster.com	<ul style="list-style-type: none"> • Advice and information on debt and types of financial products available in the UK 	<ul style="list-style-type: none"> • Website 	<ul style="list-style-type: none"> • N/a 	<ul style="list-style-type: none"> • No client-facing staff
Thisismoney.co.uk	<ul style="list-style-type: none"> • Personal finance advice and information site 	<ul style="list-style-type: none"> • Website 	<ul style="list-style-type: none"> • Owned by Associated Newspapers 	<ul style="list-style-type: none"> • No client-facing staff

* 1 case may consist of more than 1 issue
Source: Websites; interviews with Citizens Advice

Organisation	Services	Channels	Funding/budget	No. of advisers/cases
Advice UK	<ul style="list-style-type: none"> Support network for free independent advice centres. No financial advice to public 	<ul style="list-style-type: none"> Website 	<ul style="list-style-type: none"> Fund raising, charitable events £2.6m 	<ul style="list-style-type: none"> No client-facing staff
Money Advice Trust	<ul style="list-style-type: none"> Set up to promote money advice. Runs National Debtline 	<ul style="list-style-type: none"> Website 	<ul style="list-style-type: none"> Donations and fundraising £2.44m 	<ul style="list-style-type: none"> No client-facing staff
Payplan	<ul style="list-style-type: none"> Collection of consumer debt, assessment of debt situation, liaise with creditors for repayment strategy, collect funds from debtors 	<ul style="list-style-type: none"> Website Telephone 	<ul style="list-style-type: none"> Owned by Totemic Ltd. Supported by banks and retailers £5.4m 	<ul style="list-style-type: none"> N/a
Lone Parent Helpline	<ul style="list-style-type: none"> Financial advice by phone for one-parent families 	<ul style="list-style-type: none"> Website Telephone 	<ul style="list-style-type: none"> Run by one-parent families £1.9m (total for OPF) 	<ul style="list-style-type: none"> N/a
Pfeg (Personal Finance Education Group)	<ul style="list-style-type: none"> Resource for teachers for personal finance matters in schools. No advice to public 	<ul style="list-style-type: none"> Website Telephone 	<ul style="list-style-type: none"> Fund raising, charitable events £0.9m 	<ul style="list-style-type: none"> N/a

Source: Websites



Organisation	Services	Channels	Funding/budget	No. of advisers/cases
Age Concern	<ul style="list-style-type: none"> Advice for over 50-year-olds on wide range of issues including tax, benefits, pensions, etc. 25% of cases involve mostly financial advice 	<ul style="list-style-type: none"> Website Telephone F2F 	<ul style="list-style-type: none"> Donations, shops, training, DoH, lottery £74.9m 	<ul style="list-style-type: none"> 6 on helpline 16k cases per year
Money matters tome.co.uk	<ul style="list-style-type: none"> Basic financial advice to adults in continuing education 	<ul style="list-style-type: none"> Website 	<ul style="list-style-type: none"> NIACE (National Institute for Continuing Adult Education) 	<ul style="list-style-type: none"> No client-facing staff
Help The Aged	<ul style="list-style-type: none"> Online and telephone advice on wide range of financial issues though main focus is on benefits. 42% of cases involve mostly financial advice 	<ul style="list-style-type: none"> Website Telephone F2F in N. Ire. (limited) 	<ul style="list-style-type: none"> Contributions, legacies, shop revenues, grants £74.4m 	<ul style="list-style-type: none"> 13.5 FTEs 90k cases per year
Gingerbread	<ul style="list-style-type: none"> Telephone advice for one-parent families, mainly life-stage/event-based. 40% of cases involve mostly financial advice 	<ul style="list-style-type: none"> Website Telephone 	<ul style="list-style-type: none"> Fund raising £1.4m 	<ul style="list-style-type: none"> N/a
IFA Promotion	<ul style="list-style-type: none"> IFA locator. Downloadable personal finance information 	<ul style="list-style-type: none"> Website 	<ul style="list-style-type: none"> IFA Promotion Ltd-non-profit funded by product sponsors 	<ul style="list-style-type: none"> No client-facing staff

Source: Websites; interviews with Age Concern, Help the Aged and Gingerbread



Organisation	Services	Channels	Funding/budget	No. of advisers/ cases
Money Advice Scotland	<ul style="list-style-type: none"> Independent advice on debt 	<ul style="list-style-type: none"> Website Telephone 	<ul style="list-style-type: none"> N/a N/a 	<ul style="list-style-type: none"> N/a
CCCS	<ul style="list-style-type: none"> Advice on debt management and budgeting to individuals 	<ul style="list-style-type: none"> Website Face-to-face E-mail Telephone 	<ul style="list-style-type: none"> Credit industry £7.6m 	<ul style="list-style-type: none"> 300
National Debtline	<ul style="list-style-type: none"> Independent advice on debt management via call centre and e-mail 	<ul style="list-style-type: none"> Website E-mail Telephone 	<ul style="list-style-type: none"> Run by Money Advice Trust £2.44m (MAT) 	<ul style="list-style-type: none"> 60 65k cases per year
UK Insolvency Helpline	<ul style="list-style-type: none"> Debt consultancy set up by credit industry. Network of lawyers and accountants 	<ul style="list-style-type: none"> Website E-mail Telephone 	<ul style="list-style-type: none"> Funded by professional debt practitioners N/a 	<ul style="list-style-type: none"> 60 telephone 40 f2f 110k cases per year

Source: Websites; interviews with National Debtline, UK Insolvency Helpline



AS5. What academic and other research, UK or international, should the review be aware of that would be relevant to generic financial advice provision?

Over the past 18 months, the Foundation has published a range of research reports, all of which are directly relevant to the issues being raised by the Thoresen Review. As a first step, therefore, we would recommend that the Review Team read:

- *Closing the Advice Gap* (2006) which provides a business analysis and financial modelling to develop different models to deliver generic financial advice and provides estimates of the associated costs.
- Our analysis of the consultation responses to *Closing the Advice Gap*, where we received 40 responses from the third sector and financial services industry.
- *A National Dividend* (2006), which uses economic modelling to quantify the benefits of acting on financial advice for individual consumers and the potential savings that could be made to the public purse, and *Understanding the impact of financial advice*, a report produced by Deloitte which gives details of the economic model used in *A National Dividend*
- *Generic financial advice - Evaluating commercial approaches* (2006), in which Alan Goodman analyses whether a generic financial advice service could be provided on a commercial basis and, if so, what form they would take.
- *International approaches to improving financial capability* (2006), which summarises key government, third and private sector programmes aimed at improving financial capability in the US, Canada and Australia.
- *The Advice Gain* (2007), which demonstrates the quantifiable impact of a generic financial advice service on the financial services industry, and *Potential impact of financial advice on the Financial Services Industry*, a report produced by Deloitte which gives details of the economic model used in *The Advice Gain*.

We would also suggest the Team review the research carried out by the Pensions Policy Institute on behalf of the Foundation, examining the work of the Retirement Commission in New Zealand. Given the lack of international examples of generic financial advice services, the Retirement Commission's experience will be informative. *Lessons from New Zealand's Retirement Commission for UK policy on financial awareness and advice* (2006)

Scholarly research relating directly to the provision of generic financial advice is somewhat limited, though we would strongly recommend that the Review Team study the body of work produced by the Personal Finance Research Centre based at Bristol University (in particular papers by Professor Elaine Kempson and Sharon Collard), as well as the work of the Financial Services Research Forum, based at Nottingham University.

We also believe that the field of behavioural economics will be very informative in the provision of generic financial advice. Behavioural economics applies knowledge of social

and emotional biases to better understand economic decisions – or, “behavioural economics combines the twin disciplines of psychology and economics to explain why and how people make seemingly irrational or illogical decisions when they spend, invest, save, and borrow money.”² By basing the delivery of generic advice on the principles of behavioural economics, advisers can work with the grain of normal human behaviour: If we bear in mind that callers to an advice service a) do not always make rational choices, b) do not always have the willpower to follow through on decisions, and c) do not only think of themselves when making decisions,³ then we can ensure that the way in which advice is delivered maximises the chances that people will take up, listen to, understand, and act on advice. We provide a summary of how the key principles of behavioural economics applies to the delivery of generic financial advice in our response to DS1, 2 and 6 below.

AS3. What do you believe is the most appropriate way of describing “generic financial advice” provision?

The foundation believes generic financial advice should be simple, personalised and independent. The Treasury describes generic advice as:

“...unregulated advice which takes account of the specific financial circumstances of an individual, but which does not result in a product recommendation. Generic advice helps individuals to understand their current financial position, their available choices, and how to take steps to meet their needs.”⁴

We feel this is a clear and useful definition which could be adopted by the Thoresen Review. The Review Team should therefore define the provision of generic financial advice as a service which provides to consumers generic financial advice based on the above definition.

The term “generic” benefits from being a term with which the financial services industry and others are familiar. However, the Foundation feels the term suffers from several misconceptions and a critical lack of understanding regarding its *practical application*. We have often heard policy makers and financial experts confuse generic financial advice with general information, for example.

We therefore feel that clarifying and communicating a clear definition of generic financial advice in a *practical and contextual sense* is one of the key challenges for the Thoresen Review Team. This may be achieved with the assistance of the FSA – a recommendation made by the Treasury Select Committee which the FSA agreed with.⁵

² Belsky, Gary and Thomas Gilovitch (1999) [Why Smart People Make Big Money Mistakes—and how to correct them: lessons from the new science of behavioral economics.](#)

³ Thaler, Richard and Amos Tversky. "Preference Reversals." *Journal of Economic Perspectives* 4 (2): 201-211; Rabin, Matthew and Richard Thaler (2001) "[Risk Aversion.](#)" *Journal of Economic Perspectives* 15 (1): 219-232; Thaler, Richard. "[The Winners Curse \(1988\).](#)" *Journal of Economic Perspectives* 2 (1):191-202; Thaler, Richard (1988) "[The Ultimatum Game.](#)" *Journal of Economic Perspectives* 2 (4): 195-206.

⁴ *Financial capability: the government's long term approach* HM Treasury, 2007

⁵ *Financial inclusion: credit, savings, advice and insurance* Treasury Select Committee, Session 2005-06, 12th Report, Volume 1

To assist in this undertaking, the Foundation felt it would be useful to set out a number of principles to guide the practical application of generic financial advice.

The Foundation's *Guidelines for Generic Financial Advice*:

1. Generic financial advice (GFA) should motivate people to make positive changes to their financial behaviour. Delivery is as important as content.
2. GFA must be personalised. Advice based on personal information and tailored to individuals' circumstances can still be generic.
3. GFA should always be delivered with a purpose in mind. Advisers should see the encouragement of savings, planning ahead and shopping around for products as key objectives.
4. GFA should not seek to provide a huge amount of information, but instead present a few sensible options.
5. GFA must work with people's tendencies to put off decisions and not plan ahead, by providing short term and interim goals, and encouraging small changes as well as long term planning.
6. Getting people involved in thinking of their own solutions is key to giving them ownership of their problems, and convincing them it is within their abilities to improve their financial health.
7. Finally, GFA must be presented not as a list of options, but as an action plan of 3 to 5 key steps to take.

We would suggest that the Review Team bear these seven principles in mind when considering how generic financial advice should be delivered. An understanding of how generic financial advice works in practice is just as important for the Review Team as establishing a concrete definition of the term.

BS5. How can the boundary between generic and regulated advice be clarified so that it is clearly understood by both consumers and those giving generic advice? Where should it be drawn?

Generic financial advice can be delivered according to the seven principles outlined above and *not fall within the boundaries of regulated financial advice*. Yet confusion regarding the boundaries of FSA regulation could very easily make policy makers and generic financial advisers overly cautious and not use these principles to the fullest extent. The Foundation believes it is critical that an unambiguous and definitive steer is given regarding the regulatory boundaries of generic financial advice to those delivering and receiving it, as well as those constructing the protocols for the new advice service.

In order to achieve this, the distinction between regulated and generic advice must be kept simple. In reality, regulation by the FSA is required if advice is given on a specific individual mortgage, insurance, investment product, pension, home reversion or home income plan product. To avoid falling within regulation, advisers working for a generic

financial advice service must therefore not discuss specific individual products in these fields.

However, FSA regulation does not cover other financial products that may be discussed within an enquiry to a generic financial advice service. For example, the FSA does not regulate advice on consumer credit products or choice of telephone or other utility provider. Nevertheless, the Foundation believes that establishing different boundaries for generic financial advice on different financial products is not a practical or sensible approach – it would confuse both the consumer, and the advice giver. We believe a consistent boundary across all financial products, whether or not those products fall under regulatory control, should be used.

This consistent boundary can broadly be defined as: a generic financial advice service should not provide advice to buy, sell, cancel, or vary any *specific* individual financial product provided by a *specific* provider. This is broadly in line with the FSA's own proposals for generic financial advice.⁶

This approach could be described to the consumer thus: a generic financial advice service can advise on types of financial products, but not company-specific ones. For example, the service can advise on the advantages, disadvantages and implications of different cash ISAs, but cannot compare *Barclays, Lloyds, etc* cash ISA. An adviser can comment on specific features of products, but not comment on a specific brand.⁷

The Foundation believes this distinction is practicable for advisers, and would be understood by consumers. Nevertheless, this definition may not always seem clear, and some circumstances may create a grey area. For example, one challenging circumstance which may occur frequently is where a caller provides information to the adviser about their existing (i.e. company specific) financial products. In these cases, the adviser must ensure that any subsequent discussion focuses on the features of the product mentioned (e.g. interest rates, fees, and so on), and does not refer to or judge the brand in question, or compare it to other brands.

This is particularly important for mortgages, insurance and investments, where FSA regulation states that any advice to vary the terms of these products, once details of them have been passed to an adviser, will constitute regulated advice. In such cases, advisers will have to use forms of words which enables them to present the pros and cons of different options regarding a consumer's existing product without falling foul of FSA regulation. It is worth noting, however, that the Treasury has provided exemption to this regulation as it relates to mortgages for free debt advice services,⁸ so that they can advise on changing existing mortgage terms to help those in debt. A similar exemption could be sought by the Review Team for a new generic financial advice service, to mitigate the risks associated with the above complexity.

To illuminate some of the potential grey areas which may challenge the boundary between regulated and generic financial advice, the Foundation suggests that the Thoresen Review Team create a number of hypothetical scripts of consultations between a consumer and generic financial adviser. These scripts could illustrate some

⁶ *Financial Capability: developing the role of generic financial advice*. Financial Services Authority, August 2005

⁷ This information regarding the boundaries of FSA regulation was provided to the Foundation by Nick Lord, member of the FSA Consumer Panel, in his paper *Proposals for Establishing a Trial Generic Financial Advice Service*, October 2006.

⁸ SI 2005/1529, paragraph 73

common challenging circumstances, and provide forms of words that might be used to ensure the adviser remains in unregulated territory.

The Foundation will be interested to see whether the outcomes of the Thoresen Review's work in this area suggests that the regulatory boundary between generic and financial advice needs to be re-examined by the FSA.

BS4. What should be the content of generic financial advice? Which subjects should be included/excluded?

The Foundation believes that the scope of a generic advice service needs to be as broad, and offer advice in as much depth, as practicably possible. There will inevitably be, however, a trade-off between the breadth and the depth of the advice provided. The Foundation would err on the side of guaranteeing breadth of scope, covering all topics relating to generic financial advice that would be of use to a consumer. The advice service should then give as much detail in each area as possible, whilst bearing in mind that there will be a level of technical expertise at which the caller must be referred on to another advice service. We explain this in more detail in our responses to BS1 and 2 below.

The Foundation held a series of focus groups and interviews in 2006 where participants were low to median earners. We asked them about what sorts of generic advice they would like to receive, and their preferences fell into four broad categories:

1. Product - related advice

32 per cent of people interviewed were interested in receiving general (rather than specific and regulated) product-related advice. The focus groups also invariably raised product comparison and explanation as a key advice need. 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,⁹ and the findings of the Baseline Survey which showed that people do not choose products well.

We believe products that should be covered by a generic advice service include:

- Pensions and annuities
- Mortgages and equity release
- Savings and investment vehicles
- Credit and loans
- Insurance

These products will need to be discussed within the boundaries of generic financial advice – as we explain above, this means not comparing or recommending specific products from specific providers, and referring consumers to reliable sources of comparative information to enable them to select the best product for their circumstances.

⁹ *Losing interest: How much can consumers save by shopping around for financial products?* FSA occasional paper series 19, October 2002

We also feel that particular attention needs to be paid to the provision of generic pensions advice in the light of recent Government reform. The content of such advice will need to be formulated in consultation with the new pensions Delivery Authority and personal accounts board to ensure the most up to date and accurate pensions information can be provided in the transition period of the new system being introduced in 2012.

2. Financial management advice

25 per cent of people interviewed were interested in receiving advice on financial management techniques – this would include:

- Budgeting
- Saving
- Managing debt
- Tax and benefits

Advice on tax, tax credits and benefits should only be given to a basic level. For example, a generic financial adviser ought to be able to tell someone that they might be missing out on a certain benefit given their personal circumstances, and advise them to claim all they are entitled to. However, we think that details regarding entitlement levels and the specific conditions under which benefits and tax credits are provided is beyond the remit of a generic financial advice service. The DWP and HMRC currently run a series of help and information lines for those with benefits and tax credit enquiries, such as the Benefit Enquiry Line and Child Support Agency National Enquiry Line. Callers to a generic financial advice service should be referred to such sources of specialised information as appropriate.

3. Advice linked to life - stages

Just under 30 per cent of people interviewed said they would be interested in receiving advice relating to a significant life event. 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.

4. Crisis-related advice

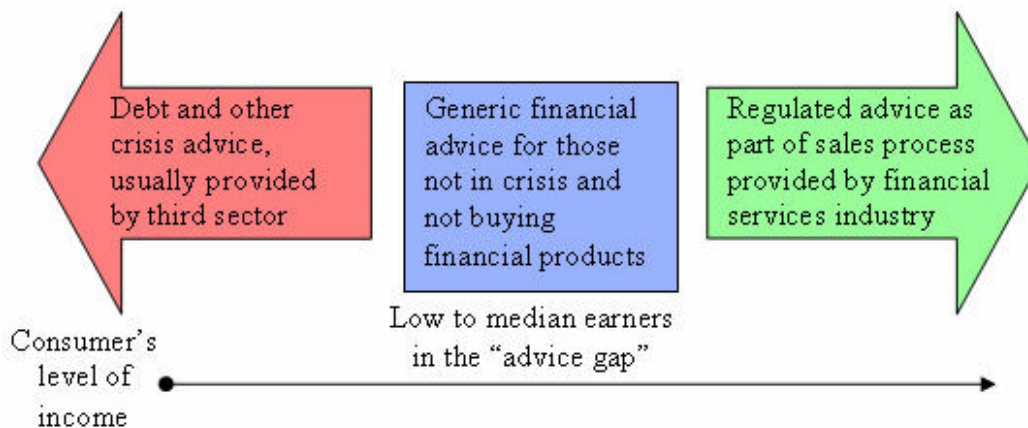
27 per cent of people interviewed said they would be interested in receiving crisis-related advice, such as being made redundant, but also when faced with a debt problem. Although the provision of remedial advice to address debt problems is expanding, these services do not currently have the capacity to meet demand. A generic financial advice service may be in the position to deal with lower level debt problems (e.g. where someone cannot meet a mortgage repayment or pay off their credit card), whilst they may be referred to specialist services if they have multiple debts or legal problems arising from severe or long standing debt problems.

The Foundation believes each of the four categories of advice above can be usefully covered within generic financial advice boundaries. However, as we explain below, strong referral relationships with a range of specialist organisations will need to be formed to ensure that enquiries falling outside of the remit of generic financial advice can be passed on.

AS6. Do you consider the current infrastructure could deliver the kind of generic financial advice provision envisaged by this review? Or is a new structure required?

The Foundation believes that neither the current infrastructure of existing advice services nor that of the financial services industry could deliver the kind of generic financial advice service that we envisage in our introduction to this response.

Our research shows that there is a significant gap in current provision: most government and third sector advice provision currently tends to be targeted at lower income groups and the financially excluded, or tends to provide crisis (such as debt and legal) advice. At the other end of the spectrum, the financial services industry and commercial advice providers tend to provide advice which is packaged with product sales, and so whilst may start off being generic quickly becomes regulated or product specific advice. Their target market are those higher income consumers who are able to pay a fee for advice, or who are likely to buy a substantial financial product and therefore generate commission for the provider. Falling between these two extremes are those individuals who require non-crisis and non-sales related advice – our research shows these are primarily those consumers on low to median incomes.



This current gap in provision is not easily filled by the existing infrastructure – our research shows that there is insufficient financial incentive in the financial services industry to provide generic financial advice, and existing providers have shown little interest in moving into this field.¹⁰ More importantly, our research shows that even if there were capacity in the commercial sector to provide generic advice, the levels of consumer trust and perception of independence in the industry would render it an unsuitable sole provider.¹¹

On the other hand, our research also shows that existing providers of debt advice or advice for the financially excluded may not have the capacity, and also do not have the appropriate brand, to deliver advice successfully to the target group. Focus groups with

¹⁰ Goodman, A: *Generic Financial Advice: Evaluating commercial approaches*, Resolution Foundation (2006)

¹¹ This does not rule out the possibility that the sector may assist in providing the face to face element of a generic financial advice service – see below.

low to median earners found that many believe these existing services are associated with being “in trouble” financially, or the preserve of the particularly disadvantaged.¹²

We believe that a lack of capacity and appropriate brand means a new infrastructure and brand needs to be established in the middle ground between the these two fields of activity, which would be able to support the provision of generic (non-crisis and non-sales related) financial advice – mainly for those low to median earners in the advice gap. As we explain below, we envisage this infrastructure being an independent organisation, supported by some form of public private partnership between the Government and the financial services industry. This body would commission the delivery of a mainly telephone-based advice service, with support from the third sector to provide a limited face to face advice function.

BS1. Who should generic advice aim to serve including a view on segmentation?
BS2. Are there groups it should not aim to serve and how might they be excluded or steered away?

The Resolution Foundation has carried out a significant amount of research in order to identify those individuals who live in an “advice gap” – i.e., those consumers who are not served by the voluntary or commercial advice sectors and have no cushion of wealth to protect them from poor financial decision making. We found that this group were not the least well off (though of course these groups also experience difficulty in accessing financial services), but were in fact those on low to moderate incomes. We defined this group as those whose annual income is below the national median (i.e. below approximately £11k per person or £22k per household), but who receive less than 20 per cent of this income from welfare benefits.

Our research shows there are 15 million people in this income group currently unable to access financial advice.¹³ This is because this group do not receive much dedicated state support linked to benefits eligibility, or support from third sector advice agencies who often target the financial excluded. On the other hand, this group are not viewed as a profitable consumer group by the financial services industry and therefore do not receive advice packaged with product sales. Evidence suggests this group have most to lose from poor financial capability, as they could have a level of income and assets which would secure their financial well-being if it was managed effectively. However many make little or no provision to guard against the impact of a drop in income and sudden expenditure¹⁴, and due to their relatively low incomes can easily find themselves falling into welfare dependency. At the same time, improved financial capability – which has been shown to increase personal wealth and protect people from drops in income¹⁵ – can significantly improve this income group’s quality of life.

We would suggest, therefore, that a new generic financial advice service targets those 15 million low to median earners who are least able to access this form of advice, but who stand to gain considerably from it. However, we also believe that the service should be provided universally, in that it should not definitively exclude any particular group.

¹² *Closing the Advice Gap – Appendix* Resolution Foundation 2006

¹³ *Closing the Advice Gap*, Resolution Foundation 2006

¹⁴ Our survey found, for example, that only 25% of this group had prepared for a drop in income. See *Closing the Advice Gap*, Resolution Foundation 2006

¹⁵ *A National Dividend and The Advice Gain*, Resolution Foundation 2006 and 2007.

Instead, we believe specialised outreach and marketing should be used to ensure high take up rates in the target market (see below), combined with a method of “filtering” callers to the service to ensure that it is generic advice that they actually need. This second point is extremely important. Generic financial advice can provide valuable information and guidance on many issues, but may be limited in some circumstances – some clients will have problems and queries which are either outside the remit or beyond the scope of generic financial advice. It is important that this is identified early on to avoid a waste of resources. So, for example, a person calling the service with £100k to invest might be advised to talk to an Independent Financial Adviser, as they have a level of wealth and assets that would be best served by product specific, regulated advice. A person with multiple debts and legal proceedings pending might be referred to National Debtline or the Community Legal Service, as their problems require specialised, not generic advice. These and other similar circumstances could be identified through a series of opening “filter” questions at the beginning of the consultation with a generic financial adviser, which would minimise the amount of time spent on inappropriate queries.

The Thoresen Review Team will need to consider and define the boundaries of generic advice, and set filter questions accordingly. For example, when creating a number of generic advice scripts in partnership with Vertex, the Foundation decided that a filter question of debt advice would be “Do you have any CCJs or existing legal action being taken against you?” We believed this question was necessary as those consumers whose debts had led to legal proceedings required specialised advice that was beyond the remit of generic financial advice. This process will have significant impact on the scope, and therefore the caseload and running costs, of a generic financial advice service.

We therefore urge the Review Team to give careful consideration to where the boundaries of generic advice are set. We believe defining the limit of generic advice, and thereby identifying at which point a referral to technical advice services is appropriate, must be carried out on an issue by issue basis. As we mention in our response to BS4 above, we feel this boundary should give a generic financial advice service the opportunity to provide advice in as much breadth and depth as possible, given the limitations of capability and resources.

DS3. What would an attractive brand for a generic financial advice service look like?

Last year, the Resolution Foundation commissioned McKinsey & Co to carry out a series of focus groups to discuss the idea of a new generic financial advice service. Participants were individuals from low to median income groups. When asked about how the service ought to be branded and marketed, two issues were frequently raised:

- The new service would have to avoid any association with being ‘in trouble’ – in financial crisis or severe debt. A new service would need to be promoted as being the ‘natural’ and normal service to use by the target group; using it should be seen as a responsible and smart thing to do. On this basis, participants did not believe that many existing advice services would convey the right messages.

“Again, it’s got to have that image... it’s got to be where you’re confident of walking in and out without embarrassment”¹⁶

- The new brand would also need to be based on trust and simplicity – a “no nonsense” trusted individual who would be non-judgemental and explain things clearly. An important factor in conveying this image will be to emphasise the service’s impartiality – based upon its independence from both the Government and from the financial services industry (and therefore the sales process).

These messages will need to be central to the new advice service’s marketing strategy, but will also need to be reinforced through the service’s funding framework (i.e. using private funding in a way which does imply a link to product sales and lack of impartiality); the choice of location in delivering face to face advice; the choice of referee and onward referral partners; and so on.

The Foundation also believes that the brand used to promote a new generic financial advice service will need to be linked with the Government’s wider financial capability strategy – as we explain in our response to the Treasury’s *Financial Capability, the government’s long term approach* consultation paper, key financial capability messages need to be reinforced across financial advice and education. As such, the brand should have a campaigning purpose – actively promoting the use of financial advice as an integral part of improving the nation’s financial capability.

BS3. What are the best ways of reaching the target market (i.e. those most vulnerable to the consequences of poor decision-making)?
DS4. Is there evidence on which engagement mechanism(s) is likely to work best overall and with different segments of the target population (e.g. which media, messages etc.)?
BS6. What organisations and services should or could be expected to refer people to generic financial advice?

The Foundation would like to draw attention to a number of existing advice services which have implemented interesting strategies to encourage take up and brand awareness. Key among these are the promotional strategies of New Zealand’s *Sorted* service, the UK’s Community Legal Service, *Now Lets Talk Money* (the Financial Inclusion Taskforce’s Facilitating Access Campaign) and YoungScot.

These services illustrate the ways in which a new service might establish itself as a brand and generate demand from hard to reach groups in particular. The approach used to great effect in New Zealand has been direct marketing. There is a very high level of awareness of its *Sorted* financial advice service, with 61% of non-retired people aware of the *Sorted* brand and 75% of non-retired people having heard the *Sorted* byline. This is reflected in uptake – with 20% of New Zealanders saying they have used the *Sorted* website.¹⁷ However, 75% of the service’s budget is dedicated to marketing, split between TV and online advertising. This is a very large proportion of available resources. Despite its cost, TV, radio and online marketing are the most effective methods of establishing brand awareness to a mass market. Nevertheless, it may be less effective

¹⁶ *Closing the Advice Gap – Appendix Resolution Foundation 2006*

¹⁷ *Ibid*

in reaching harder to reach groups for whom television and commercial radio advertising is not suitable (e.g. those with English as a second language, the elderly, and so on).

We would suggest, therefore, that media advertising be used with other forms of targeted direct advertising (i.e. advertising on bank ATM screens or on the backs of withdrawal receipts, or signage in particular shops and supermarkets which primarily have lower income groups as customers) – a strategy used particularly well by YoungScot, who have a marketing presence in McDonalds, KFC, Megabowl, STA travel and in schools, as these are key brands and locations associated with their 12-26 target group.¹⁸

We would also suggest the Review Team look into other indirect methods of awareness raising, which are often no less effective despite being less costly. This may involve taking advantage of existing trust relationships people have with various professionals in the community, as well as other intermediaries who come into contact with a wide range of the target population on a daily basis. Examples of intermediaries include community organisations, as well as Post Offices and libraries, and key trust relationships may be held with GPs, midwives and youth workers. The Financial Inclusion Taskforce are using this method as part of their Facilitating Access Campaign – “Now let’s talk money”, in which they have identified key intermediaries who have regular contact and/or strong trust relationships with financially excluded groups and plan to use such individuals to promote the take up of bank accounts.¹⁹

The same approach could be used by a new generic financial advice service by identifying those intermediaries in regular contact with the low to median earning target group. The benefits of this approach is that its reach is much broader than other conventional advertising channels, such as television, and far less costly. It also has the potential to be more effective – information concerning a service which is passed on by someone enjoying high levels of trust (for example a GP), will benefit from this positive association. This is particularly important as trust and independence are key marketing messages of a generic financial advice brand.²⁰

Intermediaries can be used in two ways. Firstly, marketing literature regarding the new advice service could be placed in key locations – such as GP surgeries. GPs, post office staff and others may also be informed of the service so that they can mention it to people they deal with daily.

The Community Legal Service has successfully piloted a second, more radical form of this approach. The service tasked GPs, social services and community health teams in different areas to actively *refer* people to the CLS when a relevant problem was spotted. One of the findings of the pilot which had contributed to its success was that people often confided in their GPs about non-health related problems. A link to the CLS gave GPs a way of helping people with problems which fell outside of their area of expertise. In Northampton, the CLS/GP surgery pilot generated £1.5 million in extra benefits for 448 under-claiming clients over 2 years, and wrote off or renegotiated £169,000 in debt.²¹

¹⁸ <http://www.youngscot.net/>

¹⁹ See <http://www.financialinclusion-taskforce.org.uk/>

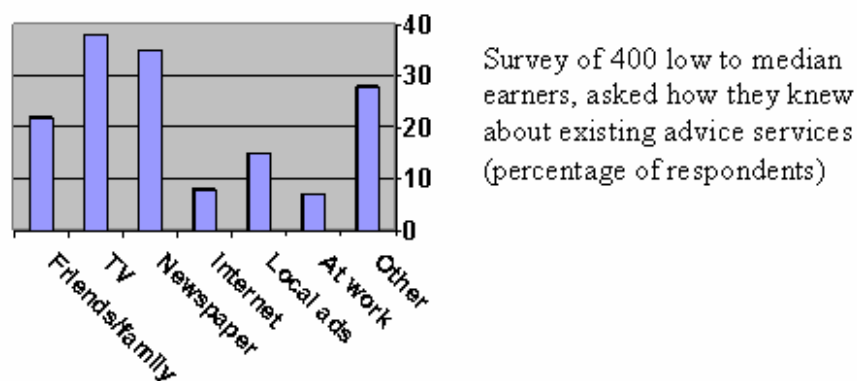
²⁰ *Closing the Advice Gap*, Resolution Foundation 2006

²¹ *Innovation in the Community Legal Service: A review of 22 projects supported through the Partnership Initiative Budget*, Community Legal Service, 2005

The Foundation would therefore suggest that the Review Team identify key intermediaries who have regular contact and positive trust relationships with its target market and explore the possibility of both lower level marketing, and more direct referral relationships with such individuals. These individuals and organisations will need to be selected carefully as public perception of a new advice service is likely to be directly affected by them.

Nevertheless, a well planned referral system has the potential to be hugely effective in improving the reach and take up of a generic financial advice service, particularly among those who may be harder to reach via more direct marketing methods (e.g. those whose first language is not English). There are a huge range of potential referees who enjoy sufficient levels of trust with any given community, and we would urge the Review Team to explore the full range of referral opportunities at local level, to include Housing Officers, Youth Workers, Sure Start staff, parent-school liaison officers, religious and community leaders, midwives, and so on.

Finally, we also suggest the Review Team explores the use of viral marketing to promote a new service. Advice services can lend themselves well to “word of mouth” awareness raising, and the use of the Internet and social networking sites in particular can be a valuable instrument in reaching harder to reach groups and those who are likely to be less convinced of the benefits of the service from direct marketing efforts. Our survey of low to median earners found “friends and family” were a popular means by which people found out about existing advice services such as National Debtline.



Source: *Closing the Advice Gap* – Appendix Resolution Foundation, 2006

Most organisations use a “marketing mix” of different strategies, and the same should be true for a new advice service in order to achieve the widest coverage across a range of channels. How this mix is balanced requires further research, and this mix will change as the advice brand becomes more established. For example, it may be that a large media presence is needed initially to establish mass brand awareness, and this may then be scaled back and emphasis placed on targeted web presence and intermediaries.

Finally, we would also suggest that the Review Team bear in mind that how a new advice service is branded and marketed will be critical in encouraging people to take up and act on the advice being provided. As with the delivery of advice, how it is marketed needs to work with the grain of people's behaviour (see our response to DS1, 2 and 6 below). For example, using trust relationships, word of mouth and a brand which emphasises "not being in trouble", will help overcome the stigma attached with seeking advice which may prevent some consumers from using the service. Other common tendencies – such as apathy, putting things off, underestimating long term gains and overestimating short term losses – should all be considered when marketing the benefits of using a new advice service.

BS7. Where should people be referred to after receiving generic advice? Should it be possible to refer people to a commercial provider? If so, how?

As we explain above, generic financial advice, whilst capable of providing valuable information and guidance on many issues, is limited in both breadth and depth – some clients will have problems and queries which are either outside the remit (such as legal problems) or beyond the scope (such as severe debt problems) of generic financial advice. In these instances, a caller to the service will need to be referred on to a range of other advice services, such as Citizen's Advice Bureaux, the Community Legal Service, National Debtline, the Pensions Advisory Service, and so on.

In our response to BS1, 2 and 4 above, the Foundation urges the Review Team to decide which areas of personal finance should be covered by a generic financial advice service, and at what level of detail, and identify boundaries beyond which callers must be referred to alternative or more technical advice providers. We have named some key services above, however there are many others that ought to be considered as a valuable source of additional advice – the Counsel & Care Helpline, for example, provides people with help regarding long term care, covering issues around securing and funding residential and domiciliary care. Such a service may be very valuable for someone calling a generic financial advice service seeking advice on equity release or other later life financial planning, for example.

It is likely that in many instances, a person seeking generic financial advice will then need to purchase a particular product. It is important that a generic financial adviser equips the caller with the appropriate knowledge to buy the best product for them, and also to secure the best regulated advice where appropriate.

However, we believe a generic financial advice service cannot and should not refer people directly to financial services providers or those selling financial products, as this would imply the need for regulation by the FSA. Only one minor exception to this general principle may exist – advisers may, in some circumstances, need to advise a person to go to their existing bank, to seek further information. However, this advice would always emphasise that a person's existing bank/lender should only be a *first port of call*, and that a person should always shop around and seek quotes from other providers in order to compare it with the first. This approach does not require regulation by the FSA as an adviser would not be recommending that the caller purchase a financial product from their existing bank or lender.

In many instances, a caller may prefer to buy a product directly following a generic consultation without referring to a regulated adviser. The generic financial adviser has a role to play – they must explain to callers how best to select a product (but without referring to specific product providers), which includes which product features to look out for, how to compare like for like products and calculate true costs, and by referring callers on to appropriate sources of comparative product advice to enable them to make their selection.

Comparison websites, comparing everything from car insurance to credit cards, holidays and mortgages, are becoming a more and more common way for consumers to identify value for money products and services. As such, a new generic advice service should explain how these sites work and how to make the best choice for them, and refer callers on to selected, reliable sites (see below). This represents a valuable way in which the service can enable callers to make the best product purchases, but without straying into regulated territory by naming specific providers.

However, these websites are not all the same – they vary in the accuracy, impartiality, and reliability of the information provided. We believe a generic financial advice service has a responsibility to ensure that it refers its clients on to reliable sources of further information and advice. The Foundation has therefore been considering how to select the best comparison websites to refer callers on to. We believe a set of criteria ought to be established in partnership with consumer groups, which should outline best practice regarding the scope of information provided, its impartiality, accuracy and user-friendliness, and each existing comparison website should be evaluated according to it.

This criteria could then form the basis of a quality mark or star rating system, to which individual websites could sign up. Only those displaying the mark would be used by the new service to refer callers on to. We believe that this will not only fulfil the service's responsibility of referring its callers only to reliable sources of further information, but may also act as a lever to improve the quality and consistency of standards across this emerging market.

For those callers who feel they need further advice before making a product purchase, a generic adviser could provide guidance on how to choose an IFA, broker or other regulated adviser as appropriate – referring callers to websites such as AIFA's www.unbiased.co.uk and the FSA, explaining how fees and commissions are charged, what "whole of market" means, and so on. The generic adviser should also explain to the caller what sorts of questions they should ask, and what information they will need to provide, in order to secure the best products for them.

BS8. What qualifications/training do generic financial advisers need and where could the advisers be sourced from?
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The range of possible enquiries to a generic financial advice service, and the skill required for a generic adviser to respond clearly and directly whilst maintaining outside the boundaries of regulation, means that the potential training needs (and therefore costs) of a new generic financial advice service could be significant. This again illustrates why setting the boundaries of a generic financial advice service, in both

breadth of areas covered and level of technical advice offered, is a very important issue for the Thoresen Review to address.

One method of reducing training costs would be to use advice “scripts” – essentially decision trees where an adviser is given the key questions to ask a caller, and depending on the interaction of the specific responses given, can provide caller-specific recommendations. We have investigated this approach by creating a small number of scripts in key advice areas²² with the help of a generic financial adviser.²³ We believe this approach could be feasible on a larger scale and that scripts could be created on a full range of subjects, although there are of course some drawbacks. Using scripts would reduce the training costs of generic financial advisers as well as the variation in the quality of advice being given and help achieve consistency of key messages. However, at the same time, it may undermine the service’s flexibility and capacity to answer questions which are “off script” and for advisers to provide spontaneous advice. The scripting process would have to be exhaustive to ensure all possible queries had been covered in order to reduce the risks of this occurring.

An example of a scripted approach to delivering generic financial advice – unsecured personal debt problems²⁴

Possible presenting question: *I can’t pay my credit card bill – what do I do?*

Advisers are directed to ask, and collate responses, to the following:

- Are you a homeowner?
- How much is the house worth?
- Do you have a mortgage?
- Do you have any loans (other than your mortgage) that are secured on your property?
- Do you have any other loans or credit cards?
- Have you missed any payments on your loans or credit cards in the last 3 years?
- Would you be willing to do something which affected your credit rating to get yourself out of debt?

Different advice scenarios based on that information are then scripted, for example:

If caller is a home owner (Q3 of UDE080)

And has secured + unsecured debts < 75% of house value (Q4, Q5 & Q6 of UDE080)

And has not missed a payment in the last three years (Q8 of UDE080)

And has debts of < £7500 on < 3 credit cards or loans (Q7 of UDE080)

- Contact your credit card or loan provider(s) and explain the situation

²² Unsecured and secured debt, saving, borrowing and mortgages

²³ Nick Lord

²⁴ Source: *Unsecured Personal Debt (UDE) Script*, Resolution Foundation and Vertex Financial Services (2007)

- Consider switching to a lower rate credit card if you haven't already done so
- Review your budget including income and spending as a matter of urgency
- Keep your spending to a minimum
- Not only control your spending but look for ways you can increase your income
- Carrying out a balance transfer on your credit card might also help. Do you want me to explain this?

If 'Yes',

Go to UDE400 (and return to this point of script)

- If these don't work, more radical options open to you are:
 - a) a remortgage
 - b) a secured or unsecured consolidation loan

Would you like me to explain these options to you?

If Yes

Go to UDE350 (Remortgage and return to this point of script)

Go to UDE310 (consolidation and return to this point of script)

You should also contact a specialist debt agency for specialist advice if you want to take these options further – would you like me to give you some contact numbers?

If 'Yes',

Go to Toolbox (and return to this point of script)

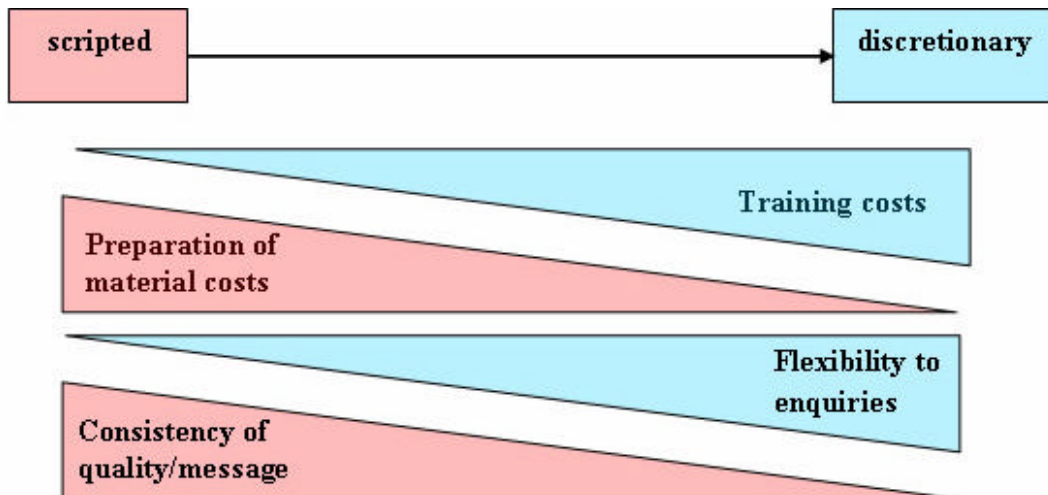
Wrap up:

Ok so I've been through all your options, but remember the first things you need to do are:

1. Contact your credit card provider and explain the problem
2. Draw up a budget and see where you might be able to cut back
3. Look into switching cards or a balance transfer if these first two steps don't help

There is, in fact, a spectrum of options available for a new advice service: with a fully scripted approach at one end, and a fully discretionary/trained approach at the other. Both have associated costs and different benefits and drawbacks. We would suggest, therefore, that the Review Team investigate what balance of these two approaches could be used to achieve the levels of cost efficiency and quality of service required. Citizen's Advice current *Moneyplan* pilot should provide an insight into the costs and benefits of a discretionary approach to providing generic advice, however we believe this crucial issue ought to be trialled by the Review Team themselves to evaluate the cost benefits of different approaches.

The spectrum of approaches to providing generic financial advice



Regardless of which approach is adopted by a new advice service, advisers will still need to be trained and certified. The Thoresen Review Team will therefore need to establish concrete guidelines setting out exactly what skills and knowledge would be required for certification. This is extremely important to ensure consistency of standards. We believe that a new generic advice service should only be staffed by qualified advisers – as such, establishing some form of accreditation system should be a priority.

There are existing training and qualification standards for generic financial advisers which the new service could adopt, such as the FSSC's National Occupational Standards. These standards are designed for delivering advice without the aid of any script or decision tree, and so are quite demanding and may have significant implementation costs. For example, the NOS for delivering generic financial advice on the issue of savings includes a very wide range of skills and knowledge that needs to be demonstrated, such as:

Be aware of different types of risk including economic, investment, and time, personal and moral.

Have a working knowledge of basic banking and National Savings products and the benefits they may provide.

Understand and be able to explain at a basic level the different forms of investments including interest bearing products, equities and equity backed products, investment trusts and property and the risks associated with investing in each.²⁵

²⁵ FSSC, *National Occupational Standards for generic financial advice*, May 2006

An alternative to the FSSC's National Occupational Standards might be the online competency tool which has been recently announced by the Chartered Insurance Institute.²⁶

The approach chosen by the Review Team (i.e. what mixture of scripted/discretionary advice is used) will dictate how relevant existing competency frameworks are for a new service's staff. All staff of a new service, aided by scripts or not, will need as a fundamental skill to understand the boundary between generic and regulated financial advice, and how to negotiate this boundary in challenging circumstances. The guidelines and forms of words provided by the Review Team (perhaps with the assistance of the FSA) will be crucial in achieving this.

As the level of training required to become a generic financial adviser is not likely to be as demanding as, say, for an Independent Financial Adviser, we envisage an entirely new position being created – a job which may be attractive to those already in the financial services industry but may also include people drawn from the charitable and community sectors, those working in other advice services, customer service agents from the other types of business, and so on. This workforce may be supplemented by IFAs and those from the financial services industry, who could be given training to deliver generic financial advice as part of their employer's corporate social responsibility agenda, or who may provide face to face advice in banks, building societies, high street brokers' offices and so on as part of the industry's contribution to the service (see our response to DS5 below).

BS9. What are the legal implications of giving generic financial advice?

The Foundation has not explored the legal implications of delivering a generic financial advice service, but the very nature of the service – advising people on a day to day basis about their finances – necessitates a thorough review of all legal and regulatory requirements.

For example, in addition to the FSA's regulatory boundaries that need to be considered when delivering generic financial advice, there are some other key pieces of licensing and regulation that are relevant. For example, the Consumer Credit Act 1974 requires that most businesses which offer goods or services on credit or lending money to consumers are licensed by the Office of Fair Trading. This extends to businesses that provide advice to consumers about the options to reschedule debt repayments as a way of coping with financial problems. As such, it would be necessary for a generic financial advice service to obtain the appropriate Category D Consumer Credit Licence from the OFT if it intended to offer advice in the area of debt and borrowing.

A second issue to bear in mind is that even though a generic financial advice service is designed to be unregulated by the FSA, the service will obviously still retain legal liability for the quality of the advice provided. The service would therefore require professional indemnity insurance to protect against claims of mis-advice. Recording calls to the

²⁶ <http://www.moneymarketing.co.uk/cgi-bin/item.cgi?id=140406&d=337&h=24&f=254>

service is also another common and valuable practice in monitoring the quality and regulatory status of the service being delivered.²⁷

CS2. Is there any evidence that supports a commercial case for a generic financial advice service (including required changes to the existing model to improve the situation)?

Earlier this year, the Resolution Foundation tasked Alan Goodman, a pensions and strategic marketing consultant and actuary, to address this very question. A review of previous research and an extensive programme of consultations with practitioners, the FSA and other interested groups was used to help assess the potential for generic financial advice services to be provided on a commercial basis. 'Commercial basis', meant a service justified purely by its direct commercial return to the provider. The providers considered included banks, building societies, insurance companies and independent financial advisors (IFAs).

In his report, *Generic Financial Advice: Evaluating commercial approaches* (2007), Goodman found that 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.

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).

Goodman found that 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 he interviewed had any plans for extending their services in this area.

Despite this, he found that there was 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. However, as the interviews showed, establishing a comprehensive generic advice service is not a viable commercial prospect among current providers.

²⁷ This information regarding the boundaries of FSA regulation was provided to the Foundation by Nick Lord, member of the FSA Consumer Panel, in his paper *Proposals for Establishing a Trial Generic Financial Advice Service*, October 2006.

CS3. How can the wider benefits of generic financial advice, to individuals and society as a whole, be quantified?

CS4. What factors should be taken into account in deciding how to split any costs of a generic advice service between the stakeholders who will benefit from the service?

CS1. To what extent should generic financial advice be free at the point of delivery?

Quantifying the benefits of a generic financial advice services is very challenging. Some benefits cannot be identified, whilst those that can are often hard to quantify. The Foundation has found that even direct financial benefits and cost savings are difficult to quantify, as they rely on a number of assumptions regarding people's behaviour following the receipt of generic financial advice. We tasked Deloitte with creating an economic model to generate some estimates of the direct financial (i.e. quantifiable) benefits to the individual consumer and the state.

Deloitte found that if today's young low to median earners acted on advice throughout their lifetime, they would enjoy:

- An average increase in personal wealth of £60,000 by the time they reach 60 years of age;
- An average increase in annual retirement income of £1,500.²⁸

This would lift many people off of Pensions Credit eligibility, meaning the state would enjoy significant savings:

- In 10 years time, annual savings in Pension Credit could be as much as £50-£100 million;
- By 2055, these savings could rise to £200 - £400 million a year;
- In the latter half of the century, these savings could be as high as £400 - £800 million a year.²⁹

Deloitte also found that if 10 per cent of low to median earners (around 1.4 million people) started acting on financial advice now, by 2010:

- They would be moving £90 million out of their short term savings and putting their money into ISAs, pensions and other medium or long term investments;
- They would be paying £1.5 billion more into ISAs and equity investments;
- They would be paying £225 million more in life assurance premiums;
- They would cut their total credit card debt from £2.5 billion to £830 million;
- They would cut their total other unsecured debts by £2.2 billion.³⁰

These results show that if they acted on financial advice, people would be personally wealthier – not because they necessarily cut consumption, but rather because they manage their debts and savings more effectively and have a better range of financial products. The changes in the products they buy imply a greater emphasis on protection against risks (i.e. through insurance) and longer term planning. For the state, wealthier consumers at retirement will obviously lead to cost savings in pensions credit and other means tested benefits.

²⁸ *A National Dividend* Resolution Foundation 2006

²⁹ *Ibid*

³⁰ *The Advice Gain*, Resolution Foundation 2007

However, these findings imply a range of wider benefits for the consumer and society as a whole, which are harder to quantify. For example, a reduction in consumer debt and increase in savings should over the longer term reduce the costs of delivering remedial advice services, such as those dealing with crisis debt or financial-legal issues. People's chances of losing their homes or facing bankruptcy may also be reduced, which may in turn help stabilise the credit market – representing both an individual and social benefit. This will also support the Government's priority of promoting a savings and assets culture where people are less reliant on the welfare state.

An increase in savings and protection products will also help protect people's financial wellbeing during economic down turns and times of increased redundancies, which can help also stabilise the consumer spending – again, representing an individual and a social gain. Increased savings and pensions contributions on the part of the consumer will also help the Government achieve its pensions reform agenda.

Improved financial decision-making may also reduce levels of financial stress, which may also deliver benefits in terms of health. Although research is limited, a study in the United States found that 42 per cent of clients of a national credit counselling organisation reported that their health had been affected by their financial problems, citing symptoms such as stress, depression, insomnia, migraines, digestive problems, ulcers and fatigue. 48 per cent of clients reported that their health improved after they received financial counselling.³¹

A survey carried out by AXA in the UK found that:

- Over 40 per cent of people have experienced stress or illness due to money worries
- 3.8 million people admit to having taken time off work as a result
- Nearly 11 million say that it has affected their relationships³²

By significantly reducing financial stress, a national financial advice resource could play a role in improving the stress related health outcomes.³³

More financially capable consumers should also help contribute to a healthier and more sustainable financial services market in the longer term. At the moment, a relatively weak consumer position means the industry is facing increased regulation and scrutiny of its practices (such as bank charging) by the FSA, OFT, and so on. More confident consumers should increase demand for financial products and readdress the imbalance in the current market. This could possibly lead to a regulatory dividend for the industry.³⁴

The Foundation believes that a national generic financial advice service should be funded jointly by the Government and the financial service industry, reflecting the fact that both stand to gain financially and in other ways from more financially capable consumers. When asked about the issue of joint Government-industry backing, 78 per cent of the low to median earners we surveyed said they would trust such a service, as long as it was not linked to a sales process and remained independent.³⁵ The

³¹ Health, financial well-being and financial practices of financially distressed consumers; O'Neill et al, 2005

³² AXA press release, 20 January 2006

³³ *A National Dividend*, Resolution Foundation 2006

³⁴ *The Advice Gain*, Resolution Foundation 2007

³⁵ *Ibid*

experience of the *Sorted* advice service in New Zealand indicates that contributions from the industry would have to come from several providers rather than a few, as this may affect consumers' levels of trust.³⁶

Linking benefits to funding

Our research demonstrates that three stakeholders in particular are set to gain from a new generic financial advice service – the individual consumer, the Government and the financial services industry. As such, we recognise that there is a case to argue that the costs of a new advice service should be shared between the three groups, perhaps with the individual consumers' contribution being provided in the form of a fee. However, the Foundation believes the contribution the consumer makes through general taxation should be taken into account and that a new generic finance service should be provided free to the consumer.

Some argue that having to pay for advice would increase the value consumers place on that advice, and then make them more likely to act upon it. The FSA point to “a lack of understanding among consumers that financial advice has value and might be worth paying for.” As one reason why the generic financial advice market has not developed.³⁷ However, the Foundation believes that requiring payment could both reduce the take up of the service, and may undermine public perception of it.

A survey carried out by McKinsey & Co on our behalf found 25 per cent of those on low to median incomes would be willing to pay a *small* fee for a generic financial advice service,³⁸ whilst the other 75 per cent would only use the service if it was free. Making the service free at the point of use should therefore significantly encourage take up, particularly among harder to reach groups, which is the most important objective of any new service.

McKinsey & Co also carried out a series of focus groups with participants from low to median income groups. When discussing the issues of public perception and trust, participants stated that an important feature of any new generic advice service would be its independence and impartiality – from both Government and the financial services industry, and it would need to be made clear that the advice being provided was not linked in any way to product sales.³⁹ Charging a fee for advice may give the impression that the service is being operated on a commercial basis, which may in turn undermine the sense of trust and impartiality.

The Foundation therefore believes that a national generic financial advice service should be funded jointly by the Government and the financial service industry, reflecting the fact that both stand to gain financially and in other ways from more financially capable consumers. When asked about the issue of joint Government-industry backing, 78 per cent of the low to median earners we surveyed said they would trust such a service, as long as it was not linked to a sales process and remained independent.⁴⁰

³⁶ *Lessons from New Zealand's Retirement Commission for UK policy on financial awareness and advice* Resolution Foundation and PPI, 2006

³⁷ FSA (2000): *Financial Capability: developing the role of generic financial advice*

³⁸ *Closing the Advice Gap*, Resolution Foundation 2006

³⁹ *Ibid*

⁴⁰ *Living in the advice gap*, Resolution Foundation 2006

The Foundation has no definite view as to how the funding ought to be split between Government and industry. However, during our consultation on the proposals put forward in *Closing the Advice Gap*, we found the most popular form of settlement was a fairly even funding split between the two, or a split which was slightly weighted towards Government.⁴¹

ES4. What mechanism should be used to collect and distribute any potential financial contributions e.g. from Government, industry etc?

ES4.1 Industry contributions

To arrange a funding settlement between the Government and the financial services industry to fund a new advice service as we suggest above, the Government will need to negotiate with the financial services industry some form of equitable public-private funding partnership.

The experience of the *Sorted* service in New Zealand is informative here. In 1995, funding was provided by then Government (70 per cent) and 10 leading financial service companies (30 per cent). However the agreement to fund the service was voluntary, and by 1999 the 10 supporting companies had fallen to 4. The Government was then concerned that this was too few, and that the service might be seen to promote its 4 funders' products. As a result, in 2001 the service became wholly Government funded.⁴² This suggests that if a PPP system were to be adopted, private contributions would have to be mandatory and more or less universal – covering the broad economic base of the financial services industry.

Therefore, when reviewing methods for collecting private contributions (i.e. from the financial services industry) to a Public Private Partnership, we need to consider:

- Fairness and transparency – what is the most effective way of spreading the cost across the economic base of the financial services industry, and how should this be apportioned? (i.e. according to size, marketing spend – which arguably serves to exacerbate consumer confusion – or some other indicator of responsibility)
- Simplicity – collection of funding should not present a large administrative cost or require whole new frameworks or bodies to be created.

The following options would allow for private funding to be accumulated from a majority of the sector:

Option One: FSA Fees

General FSA fees are charged to every regulated financial service provider. They are calculated by the type of firm (e.g. mortgages, fund managers, insurance funds) and the size/income. Fees are set annually following a consultation with the sector and are used by the FSA to fulfil its statutory obligations. In 2007, the FSA stated £17.5 million of the fees it collects will be spent on improving financial capability. This includes facilitating universities to provide financial education to students, encouraging financial institutions

⁴¹ *Closing the Advice Gap, Analysis of consultation responses*, Resolution Foundation 2006

⁴² *Lessons from New Zealand's Retirement Commission for UK policy on financial awareness and advice* Resolution Foundation and PPI, 2006

to offer workplace seminars and encouraging employers to make time for their employees to attend seminars.

The FSA could increase its fees and use a larger proportion of the monies collected to help fund a generic financial advice service.

Benefits

- A percentage increase in FSA fees to pay for a generic advice service would cover the majority of the sector;
- The fee is adjusted to take account for the size of company, so would be fair;
- It would not require any new administrative framework to collect but could just be a ring-fenced proportion of the total Fee collected.

Disadvantages

- FSA fees only cover regulated companies, rather than the entire industry;
- Companies may resent a significant increase in their existing fees, unless this was phased in gradually.

Option Two: Universal Fee

The main drawback to using FSA fees to collect private contributions is that it only applies to regulated companies. Yet the principle of using a fee adjusted by the size of the company is equitable and efficient. It may be possible to use the FSA approach and apply it across the full economic base of the industry – perhaps selecting the top 50 largest regulated and unregulated companies.

Benefits

- This option would cover a larger number of financial services companies;
- It would be fair as it could be adjusted to company size;
- Regulated companies would be familiar with the system as it would be similar to the FSA system.

Disadvantages

- It may be difficult to identify non-regulated financial companies and as such it would be quite hard to evaluate who should pay;
- A new administrative system would have to be created to set and collect the fee, which implies greater administration costs.

Option Three: Marketing Tax

Nielson Media Research found the financial services industry spent £1.5 bn on advertising in 2005.⁴³ The size of this direct marketing effort may in part fuel consumer confusion regarding different financial products and suppliers. To compensate for this, one option would be to tax the marketing spend of, say, the top 50 highest spending financial services companies, and use this to fund the new service. An annual budget of £100 million would equate to half of one percent of the advertising spend for the financial services industry (Hollis, 2006 in Dixon, 2006).⁴⁴

⁴³ *Closing the Advice Gap*, Resolution Foundation 2006

⁴⁴ *Ibid*

Benefits

- The financial services sector may not be as resentful of this tax as an increase in FSA fees. This is because it can be argued that a generic financial advice service supports the marketing effort – providing information and helping consumers make informed choices⁴⁵;
- It would be applicable to the entire sector and would place more responsibility on those companies who make the most “marketing noise”.

Disadvantages

- Marketing materials are also about providing information about different products and companies to consumers, so a ‘marketing levy’ could be said to tax information;
- It may favour the parts of the industry who use intermediaries, and so spend less on direct marketing to the consumer;
- It may be unfair on newcomers to the market who spend a higher proportional amount on marketing than established brands;
- The amount spent on marketing varies annually, which would render funding flows unpredictable;
- It may create perverse incentives for companies to re-categorise or otherwise hide their marketing budgets to reduce their levy;
- A new administrative system would have to be established to collect the tax, including a way of monitoring marketing spend through published data.

Option Four: Unclaimed Assets

In December 2005, the Commission on Unclaimed Assets was set up following an agreement between HM Treasury and the banking sector that money in dormant bank accounts should be distributed to worthy causes after a 15-year dormancy period. They also agreed to launch a campaign to reunite consumers with their accounts.

In July 2006, the Commission published a consultation document setting out proposals for a Social Investment Bank, a new financial institution, which would be tasked with distributing funds from dormant bank accounts to third sector organisations working in deprived communities. Its final report explaining how this new organisation would work was published in March 2007, suggesting financial inclusion and community regeneration should be two priority funding areas.

Estimates of the amount of money held in dormant accounts (based on the 15 year rule) vary from a few £100m to the low billions, though most estimate it to be around £400 million. Some of these funds could be used to run a generic financial advice service.

Benefits

- The Treasury is already committed to putting unclaimed assets to good use. In the 2007 Budget, the Chancellor reiterated the Government’s support for using unclaimed assets for young people and to promote financial capability and inclusion. There is therefore a good case to be made for funding to be given to

⁴⁵ See *The Advice Gain*, Resolution Foundation 2007

projects to improve financial inclusion, one arm of which might be a generic financial advice service;

Disadvantages

- Unclaimed assets are actually consumers' money, rather than industry money. Can this be justified as the "industry contribution" to the public private partnership?
- To protect consumer rights, people are able to claim back the money in their dormant accounts, and interesting owing, at any time even after the 15 year period has elapsed. This and various other legal technicalities around passing a person's money to a third party, especially from building societies,⁴⁶ would have to be settled for this to become a feasible option.

Option Five: Non-financial Contributions

As we explain in our response to DS5 below, regarding the provision of face to face advice, the Foundation believes the Review Team ought to consider whether face to face advice could be delivered in and by high street banks, building societies, brokers and so on. This could be treated as a proportion of the industry's contribution to a new generic advice service.

If this option were to be pursued, we would urge the Review Team to ensure that this activity was not linked in any way to the commercial activities of the business in question: if face to face advice is delivered by branch staff, or even if the service is just located in branches, there must be no means by which a bank can promote its own products or profit in some other way. This would have serious implications for the regulatory standing of the service and its reputation for impartiality and independence. As this option would represent a payment in kind by the industry, replace some of the financial contribution it might otherwise be liable to pay, the banks or building societies in question could not expect any further return for this activity.

ES4.2 Distribution of funds

As we explain above, the Foundation believes that an independent body should be created, tasked with the coordination, governance and championing of wider financial capability strategy (of which a generic financial advice service is one element). We would expect this body to oversee the delivery of a generic financial advice service, and as part of its governance role, set performance targets in line with the Government's long term strategy for financial capability⁴⁷, monitor progress against those targets, and distribute funds accordingly.

ES1. What organisation(s) should be responsible for oversight of and/or delivery of a national generic financial advice service (e.g. national vs. regional oversight; existing vs. new body)?

ES2. How should any generic financial advice service be made accountable (e.g. targets, performance management, reporting lines etc)?

ES3. What should the relationship be between any new delivery body (assuming one is

⁴⁶ <http://www.bsa.org.uk/mediacentre/press/lostsavings.htm>

⁴⁷ *Financial Capability: the Government's Long Term Approach* HM Treasury 2007

deemed necessary) and existing services?

Oversight, delivery and accountability

Our research shows that a mainly telephone based generic advice service, with a limited face to face function, is the most cost effective way of delivering generic financial advice. It would also be acceptable to most of the Foundation's low to median earning target group.⁴⁸

With this in mind, the Foundation believes that a generic financial advice service needs to be overseen by a new, independent national body. This body would be tasked with commissioning a national telephone service from an existing or new provider, and to act as a central hub of a franchise of local organisations providing a limited face to face advice service.

We do not have any strong views regarding the type of body delivering the telephone service, in that it may be outsourced to an existing company working in a similar field or with suitable experience, or may be delivered by a newly created organisation. We do feel, however, that for the delivery of face to face advice, existing community organisations and local networks need to be used as far as possible in order to reduce costs of establishing new advice locations.

Part of the role of the national overseeing body will be to ensure that service providers' performance meets certain quality standards. We would expect the new body, therefore, to establish minimum standards and protocols regarding advice content and delivery, the level of training required for advisers delivering the service, and relevant targets – the progress of which would be monitored and published annually. If this body were to be an agency of a lead department, such as the Treasury, we might expect these service-level targets to contribute towards a broader Public Service Agreement regarding financial capability.

As a central hub of a franchise of face to face advice services, the new body would be responsible for awarding franchise contracts according to minimum standards and training requirements. Accredited organisations would then display a common brand and quality mark to signal their membership of a generic financial advice franchise. Business Link, which is funded by the DTI to provide information and support for new businesses, is run in this way. For example, Great Western Enterprise Ltd operates the Business Link Franchise for Berkshire and Wiltshire, and benefits from the public recognition of the national Business Link brand.

In our response to the Government's consultation document *Financial Capability: the Government's Long Term Approach*, we proposed that a national body ought to be created with the responsibility for championing the issue of financial capability and providing governance and oversight by setting targets, minimum standards, and monitoring progress and performance.

We envisaged that this larger champion of financial capability would also act as a coordinator of various education and advice programmes that currently exist in this field. As such, part of its remit could be to act as the overseeing body of the new generic

⁴⁸ See *Closing the Advice Gap*, Resolution Foundation 2006

advice service: commissioning a provider to deliver telephone advice; establishing franchise arrangements; providing oversight and performance management, and so on.

Relationship with other services

If this approach were taken, many existing programmes which promote financial capability (e.g. the work of PfEG in schools, FSA seminars in the workplace, etc.) could be coordinated alongside a generic financial advice resource. Some existing advice services, such as National Debtline, may also operate under a wider coordinating body's umbrella, as this service falls in to the third sphere of activity listed above. Other services, however, may have strong referral relationships with the delivery body of a new generic advice service. As we explain above, the Community Legal Service, the Pensions Advice Service and other specialist advice services will all be relied upon by a generic financial advice service to act as a source of further advice beyond its remit.

Some local advice networks may also be even more directly involved with the provision of a new generic financial advice service. As we explain above, our research found a telephone service, with some face to face provision, would be most cost effective as a delivery model of a new advice service. Whilst the former can be successfully delivered on a national scale, it is clear that any face to face provision would have to be delivered locally, with the help of existing community networks. This may mean newly trained advisers co-locating in existing premises, or existing services bidding for a franchise and their own staff gaining accreditation to deliver this service themselves.

DS5. For face-to-face advice, are there particular locations that would be attractive generally for different segments of the target market?

The Resolution Foundation's research has found that those who currently have least access to generic financial advice, but those who would most benefit from improved financial decision making, are those in low to median income groups. This represents around 15 million individuals in the UK who have an income of less than £11k per annum or live in households with incomes of less than £22k per annum, but who receive less than 20 per cent of their income from welfare benefits.

Our research shows that this income group are mostly employed, and are more likely than average to be part time and self employed workers. They are also more likely to be home owners than renters, and are more likely to be educated to Level 2. There are also slightly more women than men.⁴⁹ Nevertheless, and although this group all exist in an "advice gap", they are certainly not homogenous. They are made up of different age groups (with high proportions of students and elderly), cultural, ethnic and professional backgrounds.

As such, care needs to be taken when selecting locations for the delivery of face to face advice, to ensure it reaches as wide a spectrum of the target population as possible. We suggest using intermediaries and local trust relationships wherever possible when selecting face to face advisers, a strategy we explain in more detail above in a marketing context. This would mean identifying local community services, ideally with an established presence in an area and already in contact with low to median income groups, and using them to co-locate generic financial advisers or awarding franchises to

⁴⁹ *Living in the advice gap*, Resolution Foundation 2006

allow them to deliver generic financial advice services themselves. Last year, the Resolution Foundation carried out a survey of 400 low to median earners and asked them where they would like to receive generic financial advice face to face. The highest proportion (51 per cent) said “at home”, followed by local community centre (49 per cent), then local GP surgery (39 per cent) and shopping centre (34%).⁵⁰ The workplace was the least popular location for face to face advice, with just 22 per cent favouring this option. Whilst people are generally happy to receive broader information at work (e.g. through FSA workplace seminars), our research showed that people felt the workplace provided little privacy for personalised consultations and they would not want to give the impression to their colleagues or employers that they had financial problems.⁵¹

If we assume that home visits are not a financially sustainable method of delivery, then alternative co-location opportunities might exist in larger GP surgeries or Post Offices, leisure centres, libraries and so on. The Community Legal Service, for example, carried out a successful pilot where they located some of their legal advisers in GP surgeries.⁵² We believe that such locations have the greatest contact with low to median earners, and many also benefit from positive trust relationships with them. Even for those who do not visit such locations regularly, these are still familiar local centres of activity and, more importantly, tend not to suffer from *negative* associations: our research showed that not portraying generic financial advice as one associated with financial problems or crisis is important in encouraging some groups to use it.⁵³ With this in mind, we would suggest that co-locating generic advice services in JobCentrePlus offices may not be effective in a) targeting low to median earners – who are mostly employed or retired and b) in promoting the service as a “normal” service (i.e. not a stigmatised service for people in trouble). Co-location partners and franchisees therefore need to be selected with care.

Further locations might be used to target specific groups of lower earners: SureStart centres and community health centres might help reach new parents and the elderly, for example, whilst religious or ethnic group support centres may help reach those with English as a second language – a hard to reach group who may not be confident enough to use a telephone-based advice service.

We would also suggest that the Thoresen Review Team give careful consideration to the possibility of face to face advice being delivered in and by banks, building societies, high street brokers and so on, and whether this could be achieved whilst maintaining public confidence in the independence and impartiality of the service.

If such a strategy could be achieved, there would be significant benefits: firstly, locating face to face advice services in high street banks has a number of merits – not least their wide national presence, contact with the new service’s target market, and established association among consumers with financial activities. Secondly, local branch staff would be good candidates to be trained in providing face to face generic financial advice. It is crucial, however, that the service provided was very visibly independent of the banks’ main commercial activities – generic financial advisers in banks cannot and must not recommend their own bank’s products or in any way gain commercially from the

⁵⁰ *Closing the Advice Gap – Appendix* Resolution Foundation 2006

⁵¹ *Ibid*

⁵² *Innovation in the Community Legal Service: A review of 22 projects supported through the Partnership Initiative Budget*, Community Legal Service, 2005

⁵³ *Closing the advice gap*, Resolution Foundation 2006

advice they provide, and to assess whether this is practicable will be a challenge for the Review Team.

With these potential benefits and associated risks in mind, the Foundation suggests that the possibilities of co-location in and/or delivery by high street banks of face to face advice be explored as a possible vehicle for the industry's contribution to the new generic advice service.

Franchising arrangements might be established with existing community organisations who already offer legal, consumer, youth or other advice, though for the reasons explained above, existing debt or crisis advice services may not be appropriate franchisees.

When selecting a partner for co-locating or providing face to face advice services in different locations, we believe the following criteria needs to be taken into account:

- Coverage – does the organisation reach a wide range of lower earners and/or can it reach harder to reach sub-groups?
- Trust/perception – does the organisation enjoy positive trust relationships with the target group (or at least does not suffer from negative public perception)?
- Capacity – are there sufficient staff resources/space to provide confidential face to face consultations?

DS1. How can consumers be encouraged to improve their financial capability and take an active interest in their personal finances?

DS2. Are there campaigns that have effected analogous behavioural change relating to generic financial advice or other scenarios? What made them successful?

DS6. Do you believe a new generic advice provision would lead to a change in consumer behaviour? If so, how?

We strongly believe that generic financial advice has the potential to change people's saving and spending behaviours. Generic advice must not simply provide information to enable people to make informed decisions, but must empower them to act.

As such, a generic financial advice service is only as successful as its capacity to prompt people to act upon the advice provided and, over the longer term, to change their financial behaviours. It is important, therefore, that the Thoresen Review Team give careful consideration as to how to maximise the likelihood that people will act on the advice they receive. When establishing guidelines and protocols for the delivery of generic advice, it is important to remember that the way advice is delivered is just as important as the content of the advice itself.

How can generic advice affect behaviour?

The Foundation believes there is a significant gap in the evidence base regarding whether advice can change financial behaviours, and in what ways. This ought to be addressed by the Thoresen Review Team through trialling and evaluation.

We can draw attention, however, to a small number of studies which have gone some way towards demonstrating how behaviours change following the receipt of advice. For example, participants in the recent AXA Avenue programme were given advice, and subsequently showed improved financial decision making (in the form of lower debt and higher savings) compared to those living on the same street but who were not participating (the control group).⁵⁴

Evidence from Deloitte also shows that those individuals who have a relationship with a financial advisor⁵⁵:

- Accumulate more wealth than their peers who do not have an advisor – this appears to be true whether controlling for age, income or gender.
- Borrow more – individuals with an advisor tend to have higher levels of unsecured and secured debt, perhaps in response to greater financial confidence.
- Hold more financial products than those without an advisor (2.3 products compared to 1.1)
- Claim to be more interested and confident in their financial dealings. The lower chart compares across the adult population the confidence of those with and without an advisor.
- Are more willing to take some risk with their money (57 per cent prepared to take some risk compared to 34 per cent)⁵⁶

Finally, studies carried out by the Legal Services Commission on the impact of debt advice found that more people who had received debt advice reported that their financial situation had improved and they had greater confidence in dealing with their problem compared to a control group who did not receive advice. Although the rates at which debt fell between intervention and control groups were fairly similar, the former were more likely to deal with their priority debts first – following advice from National Debtline regarding paying off debts which may lead to repossession or imprisonment first.⁵⁷

We commissioned economic modelling from Deloitte in 2006 to establish how acting on generic financial advice might benefit the individual and the state. Although Deloitte's objective was not to assess whether people's behaviour changed following the receipt of advice, they reviewed existing evidence and consulted IFAs and other experts to gain a clearer picture of *how* behaviour might change. From this process, they concluded the following:

Low to median earners receiving and acting upon generic financial advice are likely to:

- Keep an emergency fund of short term savings and move more of their savings into medium or long term savings vehicles, such as ISAs and pensions.
- Manage their debts more effectively (i.e. pay off more expensive debt first and look for lower interest options)
- Shop around for better products and secure better interest deals in saving and borrowing.

⁵⁴ AXA Avenue Fourth Quarter Review: *Learnings and Recommendations*, January 2007

⁵⁵ The advisor may be an IFA or tied advisor with whom people feel that they have an on-going relationship.

⁵⁶ Deloitte Wealth & Portfolio Choice 2002

⁵⁷ Pleasence, P., Buck, A., Balmer, N.J. and Williams, K. (2007) *A Helping Hand: The Impact of Debt Advice on People's Lives*, London, Legal Services Commission, LSRC Research Paper No. 15

- Cut back on their spending slightly if they find themselves with large debts that they cannot pay off.

How generic financial advice can be designed to maximise behavioural change

The Foundation believes valuable lessons can be learnt from the field of behavioural economics when designing effective generic financial advice. Principles of behavioural economics provide guidance on how to work with the grain of human behaviours – particularly regarding how people respond to risk, gain, incentives and effort. The Government has recently used this approach: using auto-enrolment into personal pensions accounts as a way of increasing pensions savings capitalises on individuals' tendency towards inertia – a tendency which had in the past prevented people from opting in to available pensions schemes.

Behavioural Economics applies knowledge of social and emotional biases to better understand economic decisions: “behavioural economics combines the twin disciplines of psychology and economics to explain why and how people make seemingly irrational or illogical decisions when they spend, invest, save, and borrow money.”⁵⁸

The principle behind behavioural economics is that humans are “bounded” – i.e., they are limited in how rational they can be and how much willpower they have. This is very different from classical economic theory, which bases its model of human behaviour on three assumptions:

- That we are perfectly rational
- That we have complete willpower
- That we are completely selfish

Economists believe we use these aspects of our personality to make optimal decisions all of the time. It is clear that such a model of human behaviour is not very realistic – in practice, individuals rarely if ever make “optimal” decisions and often a whole range of considerations come in to play in their decision making process – many of which are neither rational nor sensible.

Therefore, if we were to offer generic financial advice based on the three assumptions of “perfect” human behaviour outlined above, the content, format and timing of the advice would be set in a particular way which would assume people would always act logically to what they were being told. In fact, such an approach would not be particularly effective in either changing behaviours (e.g. encouraging savings) or prompting actions (i.e. changing to a better mortgage deal). This is because it would not resonate with how people view their personal situations or how they make financial choices, and would not take into account the fact that how people react to and act upon information will be “bounded” by human and real world limitations.

It is important to take into account such factors, as we can then produce (ultimately more effective) policy levers which harness the “subconscious workings of human decision making”.⁵⁹

⁵⁸ Belsky, Gary and Thomas Gilovich (1999) [Why Smart People Make Big Money Mistakes—and how to correct them: lessons from the new science of behavioral economics.](#)

⁵⁹ Dixon, M *Rethinking Financial Advice* IPPR and Norwich Union, June 2006

The Foundation believes the following principles of real human behaviour, used in the field of behavioural economics, are the most relevant to the issue of financial capability and the provision of financial advice in particular.⁶⁰

- 1. Heuristics.** People make decisions based on mental shortcuts, or rules of thumb, rather than processing a lot of information. These might be based on previous experience, word of mouth, what other people do, or intuition. Heuristics explains why people will keep a low interest savings account, for example, even though they know it is not a good deal – because “I’ve always had this account”.
- 2. Framing.** People are strongly influenced by how information is presented to them. For example, which items of information are absorbed may depend on their place in a sequence of, and people may answer differently to options depending on which order they are given and whether they are phrased in the positive or negative.
- 3. Loss aversion.** People put more weight on potential losses than potential gains, making them naturally cautious.
- 4. Sunk cost bias and entitlement.** People will use a service they have already paid for to justify their initial payment, even if that implies more cost or doing something they do not want to do (e.g. gym membership). People also over-value what they already have.
- 5. Hyperbolic discounting.** People discount the future too highly – they are myopic about costs and benefits. This means that they disproportionately weigh short-term gains and losses more heavily than those in the long run. This makes them less likely to save for improved retirement income, for example.
- 6. Illusion of control.** Just making a choice (even a poor one) can make people feel less worried about uncertainties that they earlier perceived.

We urge the Thoresen Review Team to look into the work carried out explaining these principles, how they affect different human behaviours (in particular, how they affect financial behaviours such as saving, spending, and selecting financial products), and how they might inform the delivery of generic financial advice. The Foundation believes there is ample scope to harness these principles to increase the chances of people acting on generic financial advice, and changing their behaviours accordingly. Below are our initial thoughts on how the principles outlined above may be used to influence the content and delivery of generic financial advice.

A behavioural economics guide to delivering generic financial advice

When assessing financial needs:

⁶⁰ Thaler, Richard and Amos Tversky. "[Preference Reversals.](#)" *Journal of Economic Perspectives* 4 (2): 201-211; Rabin, Matthew and Richard Thaler (2001) "[Risk Aversion.](#)" *Journal of Economic Perspectives* 15 (1): 219-232; Thaler, Richard. "[The Winners Curse \(1988\).](#)" *Journal of Economic Perspectives* 2 (1):191-202; Thaler, Richard (1988) "[The Ultimatum Game.](#)" *Journal of Economic Perspectives* 2 (4): 195-206.

- Do not ask two questions at once.
- Do not ask questions which contain assumptions or those with hidden contingencies.
- Do not ask hypothetical questions nor those asking about causation.
- Do not use ambiguous terms which mean different things to different people, nor be ambiguous about the time frame/event being asked about.
- Do ask the most salient questions first.
- Do use a mixture of positive and negatively worded questions and open ended questions to avoid leading those being questioned into corners.

When giving advice:

Format

- The most important piece of advice (that which will have the most impact on someone's financial health, or the most urgent) should be given first, as this is the one that will most likely be acted upon.
- People should also only be given six different pieces of advice *at a maximum*. It would be better, in fact, if only three pieces of advice were given at one time, as a "three priorities" list with the most urgent presented first. A list of three seems to be optimal in implying their relative importance. This list should also then be reiterated (in the same order) at the end of the advice consultation.
- Too much information, or too many choices, can overwhelm people and lead to them not making a choice at all or feeling dissatisfied with the choice they have made. A few sensible options instead of a breakdown of the entire sector is therefore far more valuable.

Delivery

- Acknowledge the importance of irrational fears. People tend to over-estimate the risks of something happening if that event has had a large media impact or happened recently. Providing information about *actual* risks in a format *people understand* can be hugely important.

"You don't need earthquake insurance as we only have one on average every 100 years. Just because we had one last year doesn't make the next one more likely."

- Make sure to provide breakdowns of *suitability* of products, as people might otherwise assume cost is related to quality, which may not be the case with financial products.
- People like to know the "cost" of things, even when it is not very appropriate. So it is important for advisers to not only to direct individuals to comparison sites, for example, but also, through initial analysis of a person's situation, advise on how much value each individual should place on variables such as interest rates, upfront costs, policy flexibility, and so on.

- People easily form habits. Treat having an unsuitable credit card – like smoking – as a habit. Make sure people first realise their credit card is unsuitable, understand the scale of the problem, and then *want* to change, before suggesting alternatives. Advice needs to challenge people’s perceptions that they are “doing ok” financially. This is more valuable than urging them in the first consultation to change something that they may have, up until that point, always used or relied upon.
- Suggest activities that can help form new habits – e.g. sign up to a bulletin service which will remind them to regularly check price comparison sites.
- Focus on short term achievements and more immediate benefits rather than a long term goal.

Encouraging action

- People are most likely to act on advice which is *specific to them*. This means using a detailed assessment of personal needs.
- People are quite apathetic. Make sure to emphasise the convenience of current industry practice which makes switching product easy (e.g. banks now organise standing orders and other paper work for people switching to their account).
- Make sure the potential rewards and potential losses of following/not following advice are made vivid. People will assume these possible rewards/losses are larger and more likely than they actually are and so are more likely to follow advice.
- People place more weight on both losses, and short term effects, than gains and long term effects. Phrasing advice to emphasise short term loss and gain, and in positive numerical terms, will be more effective in encouraging people to switch to more suitable products and save for retirement. More people are known, for example, to opt for an operation when phrased thus:

“of those who have this procedure, 90 per cent are alive after five years”

Rather than:

“of those who have this procedure, 10 per cent are dead after five years”

- The most effective advice will be that which explains the benefits of a strategy by emphasising the potential *losses of inaction*, rather than the potential *benefits of action*. Emphasising the losses associated with the status quo, rather than the benefits of switching product, is more likely to prompt people to change.
- If acting on advice implies immediate costs (e.g. a reduction in current spending habits), then look for existing immediate savings in other areas to offset this. It is likely, for example, that consumers will have a sub-optimum balance of financial products. It may be the case that they can cut unnecessary expenditure in one area (e.g. on high interest credit) to make up for the short term losses associated with saving for retirement, for example.

- Another method of encouraging people to accept short term loss is to demonstrate in concrete terms how a very small deduction in present spending *now* can have disproportionate benefits later – for example, by explaining the principle of employer contributions in pensions schemes and the possible interest rates and benefits of ISAs, people are more likely to accept the wisdom of saving for the future not just as a safety net, but as a wise investment.
- Get people involved in framing their choices and thinking of solutions, as they are more likely to act on advice if they feel they have helped form it. It is more important for advisers to convince people it is within their capability to improve their financial health, rather than providing large amounts of information and different methods to achieve this.
- Help people stick to their decisions. Seek a commitment from the caller to act on at least one piece of advice, and provide interim goals – rather than just a single long term goal. This helps reinforce good habits and provides people with a sign of progress to motivate them.
- Timing of financial advice is crucial – for many people, a life event is the only way they are prompted to action. Unless their situation changes (particularly for the worse) – they will lack motivation to act upon advice. An advice service should capitalise on this by ensuring information and marketing around a service is linked to life events – e.g. placing marketing literature in registry offices to target individuals who are registering a birth, death or marriage.

Other ways in which a generic financial advice service can affect behavioural change

Employing the methods of delivery outlined above should help increase the chances that people will listen to and act upon the advice being delivered. This, in turn, will increase the likelihood that advice will affect behavioural change.

However, long term behavioural change is a major challenge – and not one that a generic financial advice service can achieve easily. In a worse case scenario, a generic financial adviser may only have one fifteen minute consultation with a consumer. So whilst the adviser may be able to affect a particular action (e.g. buying or changing a product), and even establish a habit (e.g. checking price comparison sites regularly), instilling life long positive behaviours may be extremely difficult.

As such, the Foundation believes a generic financial advice service cannot work in isolation. It must instead be an integral part of the Government's broader financial capability strategy – a strategy which should seek to improve financial capability throughout the life course (i.e. from school-based financial education through to retirement planning). An integrated life-course approach can help to reiterate key messages, such as the importance of saving for retirement, from an early age. This is likely to be more effective in building positive habits and behaviours over a lifetime than attempting to affect a huge change in a single advice consultation.

The effectiveness of a “building block” approach to changing financial behaviours (i.e. where messages are reiterated over a lifetime and from an early age to build positive

behaviours) has been demonstrated by New Zealand's *Sorted* financial advice service. The Retirement Commission, which runs *Sorted*, found that the majority of people using the *Sorted* website were older people who were already saving for retirement. Investigations found that younger groups were being put off from using the service due to its association with retirement (i.e. an issue for old people). To counter this, the Commission changed the way in which its advice service was branded and marketed – leading with general savings and debt information. It found this encouraged younger groups of consumers to use the service and subsequently consider retirement issues at an earlier age than they would have done otherwise.

Examples of successful behavioural change

There are several campaigns which have successfully achieved behavioural change and changes in public attitudes – many of these are in the fields of environmental behaviours (e.g. recycling, car use, and so on) and public health (“five a day” fruit and vegetable campaign and seatbelt safety campaigns being notable successes). In the field of changing financial behaviours, the evidence is scarcer, though Sweden’s “orange envelope” pensions statements is cited as one example of where information is presented in a way which encourages greater pensions savings (i.e. by calculating an individual’s current contribution level and what income this will personally give them in retirement.) Since the envelopes began in 1999, the average retirement age in Sweden has risen to two years over the mandated retirement age of 61.⁶¹ The “Save yourself a fortune” campaign, aired on UK television in 2006, is also a good example of how an information campaign can lead to direct changes in consumer activity.⁶²

We recommend Mike Dixon’s *Rethinking Financial Capability* (2006), which provides further examples of how lessons of psychology have been and can be used to affect long lasting financial behavioral change in the context of financial education.

Concluding thoughts

The Resolution Foundation strongly supports the purpose and objectives of the Thoresen Review, and believes its findings, and the subsequent creation of a new generic financial advice service, will have a huge impact on the financial capability and wellbeing of the UK population.

There are many challenges that must be addressed, however, before a new service becomes a reality. The most fundamental of these is the clarification of what generic financial advice means in real-life contexts. The Foundation believes that even where a definition of generic financial advice is accepted, there is still too much confusion over how this might be applied in practice. The Thoresen Review must definitively clarify the limitations and possibilities of generic financial advice before its delivery can be achieved.

The Foundation believes the Review Team’s other priorities include: funding – deciding the balance of funding between Government and the financial service’s industry, and

⁶¹ Perry, J (2007) *Sweden's Pension Antidote Finds a Global Audience*.

⁶² <http://www.publicservicebroadcastingtrust.co.uk/syaf/>

selecting the most effective method of collecting the latter's contributions; marketing – promoting a sense of independence and impartiality and maximising take up among hard to reach groups; promoting action – ensuring that the delivery of generic advice is as effective as possible in making people act on the advice they receive and change their financial behaviour accordingly.

Although we believe that a generic financial advice service is a key tool in the Government's wider financial capability strategy, we understand the importance of an integrated, whole of life approach to promoting financial capability, and feel that generic advice should be delivered alongside a comprehensive financial education programme.

We would therefore urge the Thoresen Review to consider how the new generic financial advice service can be integrated into the Government's wider financial capability strategy, reinforcing key messages across the lifecycle and promoting a common brand and purpose.