Resolution Foundation's response to the Government's long term strategy on financial capability.

Introduction

The Resolution Foundation welcomes the chance to respond to the Government's long term strategy for financial capability. This is a vital area of policy and we commend the steps taken in this strategy to improve the coordination of financial capability activity in the UK and investigate further the feasibility of a national generic financial advice resource.

Established in October 2005, the Foundation is a charity which carries out original research and develops policy proposals to influence government, industry and other stakeholders in its areas of interest. It is a separate organisation to Resolution PLC.

The Foundation is currently focusing on how people access and use the financial services system. Our main project is to investigate the potential for establishing a national financial advice resource to provide generic financial advice to people on low to median incomes (people who earn less than median income but who are more or less independent of welfare benefits).

The Foundation has conducted extensive primary research (in the form of focus groups and a survey) and commissioned secondary research into the financial well-being of this group and their use of financial products. We found that this income group had relatively low levels of financial capability, did not have all of the financial products they should, and did not have access to any impartial financial advice with the exception of crisis/debt advice. However 60 per cent of those we spoke to said they would use a financial advice service if it were available.[1]

We have proposed, with pro bono support from McKinsey & Co, various delivery models for and associated costs of a national generic financial advice service, to address the "advice gap" identified by our research. 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.

We have since commissioned Deloitte to carry out detailed modelling on the benefits to individuals, 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.*

Our response draws on these various pieces of research and consultation work.

[1] *Closing the Advice Gap,* Resolution Foundation 2006

Key messages

- The Government's financial capability strategy requires coordination at an operational level and at the point of delivery, as well as a champion to raise public awareness of the issue. The Foundation believes this will require a new coordinating body, acting as an umbrella to the range of existing delivery organisations in this field. This body should promote common standards under a common brand, set interim targets and measures of success, and monitor progress of financial capability activity.

- Financial capability programmes must be delivered coherently across the life cycle. Financial education in schools, seminars in the workplace, advice regarding retirement, and so on should be seen as integrated building blocks which reinforce key messages and behaviours and have continuity of content.

- In measuring the progress of the financial capability strategy, the FSA Baseline survey should be complemented by a range of indicators measuring key outcomes of improved financial decision making. The most reliable and relevant outcome measures need to be identified as a priority.

- There is a clear link between the provision of generic financial advice and programmes to improve financial capability overall. As such, we welcome the Government's announcement of a feasibility study to explore the potential for a national generic advice service. We feel this will fill a significant gap in the current framework, whereby a significant proportion of the population (for example we estimate 15 million people on low to median incomes) have nowhere to turn for basic financial advice unless they have serious debt problems.

- Generic financial advice suffers from a range of misconceptions which lead some to underestimate its potential and value. The Government must develop not so much a working definition (as we feel the current definition used by the Treasury is adequate), but rather develop an understanding of how generic advice works in practice.

Our response

Question One

The Government proposes to review the role of financial capability in:

- services for children, young people and families;
- the schools curriculum;
- adult education, particularly adult basic skills;
- information for parents and carers;
- retirement planning, including the introduction of personal accounts and the annuities market; and
- the benefits system, particularly for jobseekers and social fund loan applicants.

Do these capture the programmes which can best help meet the long term challenges identified in Chapter 4, or are there any missing policies or programmes which the Government should consider?

The range of programmes outlined above go a long way towards ensuring that financial capability is treated as a life-long issue. Providing financial education from an early age, and in various channels throughout the life course, can help reinforce key messages throughout a person's life time and develop positive financial behaviours. Evidence from New Zealand's Retirement Commission demonstrates that dealing with financial issues over a life time is far more effective than trying to engage people to plan for retirement in their middle age, for example.[2]

With this in mind, we would firstly urge the Government to ensure that these programmes are delivered in an integrated and coordinated way – with each stage building upon the next. This will be extremely valuable for future generations, who might start with financial education lessons in primary school and continue receiving advice and information throughout their lives and into retirement.

Secondly, we urge the Government to be more inclusive in its capability strategy. The programmes outlined above are focussed at those in greatest risk of being financially excluded – job seekers, social fund applicants and those with basic skills needs who clearly require assistance in improving their financial capability. However, the Foundation believes the issue of financial capability is a large scale problem, requiring a "mass market" solution – that is, through the use of a school-based financial education programme, a national generic financial advice resource, and so on, to reach the wider UK population and in particular those on low to median incomes. Our work demonstrates that this latter group – around 15 million people – live in an "advice gap". This is because these individuals are mostly independent of state benefits, so receive little specialised guidance from the Government or third sector. They are also not viewed as a profitable customer base by the commercial financial services sector, and so receive little or no financial advice as part of product sales.

Our research shows that this income group are more likely to be part time and self employed workers. They are also more likely to be home owners than renters, and educated to Level 2. As such, their needs may not be met by many of the programmes listed above. Nevertheless, they 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 expenditure[3], 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 income[4] – can significantly improve this income group's quality of life.

[2] *Lessons from New Zealand's Retirement Commission for UK policy on financial awareness and advice* Resolution Foundation and PPI, 2006
[3] 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
[4] *A National Dividend* and *The Advice Gain,* Resolution Foundation 2006 and 2007.

We would therefore urge the Government to consider what provisions it has made as part of its financial capability strategy to meet the needs of low to median earners, as well as the more traditionally financially excluded. This means not only tackling basic skills needs, access to basic bank accounts and the provision of benefits advice, but also the challenges faced by those in low paid work who may already have a basic range of financial products.

In particular, the Government needs to consider the challenges facing low to median earners regarding retirement planning. This group are already being targeted by the Government's pensions reforms – the Government has recognised that those in work, but who have relatively low incomes, are less likely to opt in to available pensions schemes and therefore be adequately prepared for retirement.[5] The Government believes auto-enrolment will be a powerful tool in ensuring this group make the savings they need for their pensions.

However, lower earners may also have potentially the most difficult choices to make regarding their pensions – as research from the Pensions Policy Institute shows[6], the decision to opt out of personal accounts is most complex for those for whom returns may or may not interact with welfare benefits in later life – in other words, not the very poor, and not the very rich. As we explain above, our research also shows that low to median earners disproportionately tend to be self employed and work part time – rendering their pensions decisions more complicated than average.

We would therefore suggest that when providing advice regarding retirement planning and the new system of personal accounts in particular, the Government recognises that moderate earners – those currently least able to access advice – are also those with potentially the most complex decisions to make, and therefore requiring specific attention in this area.

To complement this mass market approach, strategies should be deployed to focus on the financial excluded and other groups who are in need of additional support. These complementary strategies also need to look at other approaches, and other marginalised groups, to those mentioned in the programmes listed above. Further areas for consideration include:

- The link between financial capability, debt and paying for housing. In this context, financial capability programmes have a role to play in reducing repossessions and homelessness, as several groups may find themselves facing such a prospect due to poor financial decision making. These include social tenants, those in shared ownership, Right to Buy leaseholders, new tenancies in private rented sector, homeless people living in hostels and other forms of temporary accommodation, and formerly homeless people being resettled into permanent housing. Many of these individuals are already likely to be financial excluded.

- Prisoners, ex-offenders, migrants and refugees are all at high risk of being financially excluded, and would therefore all benefit significantly from financial

[5] *Closing the Advice Gap,* Resolution Foundation 2006
[6] *Lessons from New Zealand's Retirement Commission for UK policy on financial awareness and advice* Resolution Foundation and PPI, 2006

capability programmes targeted to their needs. The Home Office could also have a role to play in offering financial capability support alongside the family support programmes being developed by the Respect Unit.

- There is a link between levels of financial difficulty and stress, which can have an adverse effect on a person's health. As we explain below, the Community Legal Service successfully piloted a referral relationship between GPs and their advice service, as GPs often encountered people suffering from stress due to a legal problem. The Government should explore the role of GPs, health visitors and others in reaching out to those with low levels of financial capability.

- The Government also ought to consider the links that exist between the financial capability agenda and the provision of existing advice services, such as consumer advice (Citizens Advice, National Consumer Council, Consumer Direct) and legal advice, both of which have significant overlaps and could be used to help coordinate and reinforce key messages regarding financial decision making.

Question Two

The concept of financial capability can extend beyond knowledge of financial products and services. For example, it can encompass understanding tax and benefits, welfare issues, or skills in shopping around for utility or mobile phone providers. To what extent should the Government adopt part or all of a wider definition of financial capability?

The Resolution Foundation believes that financial capability is about being able to maximise financial well-being by successfully operating within a mixed market economy. A mixed market economy is one where consumers have to navigate not only the financial and consumer services industry, but also the welfare state. Therefore, we view the wider definition of financial capability – including understanding of the benefits system and how to shop around for utility providers – as critical to improving people's financial wellbeing.

The term "financial literacy" has often been used in the past to describe an understanding of financial services. "Financial capability" is now recognised as a *meaningful application* of that understanding – a far more valuable outcome. However, we can only meaningfully apply this understanding if it is used within the context of people's everyday lives.[7]

These everyday lives are now more complex than ever before – with more opportunities on offer for the informed consumer, but also more pitfalls for those who are not. Firstly, more and more services are becoming consumer-orientated, meaning there is more choice now than ever before – not just in financial products, but in utility and mobile phone providers, digital television packages and payment options for a range of other

[7] Social and Enterprise Development Innovations (SEDI) in Canada provides a very useful break down of the elements of financial capability. They believe it is: Financial knowledge and understanding; financial skills and competence; and financial responsibility. See http://www.sedi.org/html/programs/FinancialCapability.asp

consumer goods. For example, in 1971 there was one credit card on the market, whereas today's consumer has a choice of over 1300 different brands.[8]

This choice can have huge benefits in ensuring people get the right product or service to meet their specific needs, but at the same time, the risks that an uninformed consumer (the less financially capable) can fall foul of this system are much greater, and pay much more than they need to. uSwitch estimates that an average family can save up to £325 a year on electricity and gas and £140 a year on their home phone if they were to select the best value for money providers of these services.[9] For those on low to median incomes, these savings represent a significant increase in their household budget and could have a large impact on their quality of life. Yet those who are financially less capable may choose more expensive credit cards, utility and mobile phone providers – missing out on a range of savings.

Secondly, the complexity of means tested benefits and tax credits means that many people are not claiming all that they are entitled to from the Government and find it hard to understand how their personal wealth and these benefits interact.

It is vital, therefore, that financial capability is not only taken to mean an *understanding* of financial issues, but an application of this understanding in a modern, real world context. As this context becomes more challenging, so the level of financial capability the Government seeks to achieve must meet this challenge.

Question Three

Which programmes or initiatives – delivered by Government, industry or the third sector – have been particularly effective in raising levels of financial capability? What can the Government learn from these, particularly for delivering education, information or advice to people who are most vulnerable to the consequences of poor financial skills?

The majority of programmes designed to improve financial capability in the UK are quite new, which limits the number of evaluations that have been undertaken. This may also be in part due to the fact that there is no standard indictor to measure changes in financial capability (see below). As such, much evidence is anecdotal, or measures the take up and capacity of services or uses some other proxy measure. However, we would like to draw attention to the AXA Avenue programme,[10] as well as the contribution made by PfEG's Case Studies.[11] We would also suggest that the Government look abroad – in particular at the Financial Information Service and SaverPlus in Australia, the American Dream Demonstration in the US and the *Sorted* service in New Zealand,[12] all of which have carried out some evaluation of their impact. We have included further details on these and some other international financial capability strategies as an Appendix to this response.

As most evaluations that have been carried out tend to focus on financial education programmes, the best source of evaluation data comes from the US. We would

[8] http://news.bbc.co.uk/1/hi/business/4035427.stm
[9] http://www.uswitch.com/
[10] AXA Avenue Fourth Quarter Review: *Learnings and Recommendations* , January 2007
[11] http://www.pfeg.org/Resources/CaseStudies/
[12] *Lessons from New Zealand's Retirement Commission for UK policy on financial awareness and advice* Resolution Foundation and PPI, 2006

recommend *Personal Finance and the Rush to Competence: Financial Literacy Education in the U.S.* (2000) Fannie Mae Foundation, and *Goodbye to Complacency Financial Literacy Education in the U.S. 2000-2005* (2005) Institute for Socio Financial Studies for valuable overviews of the US evidence base.

Finally, we would also like to draw attention to the forthcoming research by New Philanthropy Capital, which will investigate how charities and social enterprises in the UK are working to address financial exclusion.[13] This project should provide a valuable contribution to the evidence base by comparing the effectiveness of a range of programmes being delivered by different organisations and in different localities. Although this work is focussing on activity to promote financial inclusion, the overlap between financial capability and inclusion will mean much of the evidence generated will be relevant in this context.

Question Four

Chapter 3 outlines the findings of the FSA's baseline survey into financial capability. What other information might policy makers need to inform further work in this area?

The FSA's Baseline Survey is an invaluable source of information regarding the levels of financial capability of the UK population. Its measurement of particular groups of skills and behaviours, such as "planning ahead", "keeping track of your finances" and so on were developed specially to measure the key elements of financial capability. It also collects some important objective data, regarding financial product ownership and levels of savings and debt, which are key outcome indicators of financial capability.

However, we believe that the FSA resource should be enriched by other sources of information that are currently available. This is for two reasons – the first is that the Baseline Survey is published approximately four years. This may make it difficult to monitor changes in financial capability between these times. The second is that the survey's strength is in monitoring changes in behaviours, perceptions and skills as reported by individuals themselves. As such, the outcome data collected only covers a few key areas and could be expanded. As we explain in our response to question two, financial capability must be applied in a real word context. Using a greater number of "real world" outcomes to demonstrate changes in behaviour would support this approach.

We suggest, therefore, that financial capability should be monitored through a basket of indicators – this should include key indicators from the Baseline Survey, complemented by other sources of data which can be monitored at least annually. Most importantly, this basket of indicators will need to cover direct measures of financial capability (e.g. levels of knowledge regarding financial products, attitudes to saving and debt, which can be sourced from the Baseline Survey and from the new Wealth and Assets Survey), and indirect outcome measures. These include those already covered in the Baseline, but could include a much wider range.

Earlier this year, we commissioned Deloitte to carry out some economic modelling on the impact of improved financial capability on various financial products. The results

[13] See http://www.philanthropycapital.org/html/future_publication.php

provide a useful guide as to which statistical trends might indicate improved financial capability. These include:

- greater levels of savings – particularly in medium and long term savings vehicles
- increased pensions contributions
- reductions in credit card and unsecured loan balances
- an increase in take up of protection products (such as life assurance)
- reductions in arrears, IVAs and bad debts

Based on these predictions, the Government, or an independent monitoring body, may wish to consider data which includes[14]:

- take up of and amounts deposited in ISAs and medium-term savings vehicles (Source: Baseline)
- take up of pensions funds and levels of contributions as percentage of income (Source: Baseline, Family Resources Survey and ONS Pensions Trends Survey)[15]
- credit card debt and rates of repayment (Source: Baseline and BBA)
- mortgage and secured loan arrears (Source: CML)
- levels of life assurance premiums paid (Source: ABI)
- levels of insolvencies and bad debts (Source: The Insolvency Service and Retail Bank results/BBA)

The Government also ought to consider the monitoring of other real life consumer behaviour which may reflect improved financial capability – such as the use of direct debits, or trends in switching to cheaper utilities providers.

These outcome data can be described as "indirect", as a direct causal link between an increase in financial capability and quantifiable changes such as an increased take up of longer term investments and a reduction in credit card debt has not been fully proven. As such, these outcome measures will have to be chosen carefully, selecting only the most reliable and directly relevant. The evaluations from the US mentioned above has made a positive first step in constructing an evidence base to guide this selection.

Furthermore, by asking people both objective and subjective questions, the Wealth and Assets Survey and the FSA Baseline are extremely important in helping to link people's behaviours and attitudes with quantifiable outcomes, such as levels of savings and debt. We suggest that the Government (or an independent monitoring body – see Question Five below) use these surveys as the principle tools in monitoring the progress of the Government's financial capability strategy, supplemented with additional outcome data sourced from the DWP, ABI, and so on, as listed above.

[14] The forthcoming Wealth and Assets Survey should be valuable in this context – it has the potential to replace some if not most of the sources of data listed here by the end of 2007. For example, it has been designed to include information on budgeting and financial planning, pensions, assets, debt and other objective variables which will in part depend on levels of financial capability. It will also cover attitudes to saving, borrowing and retirement planning.

[15] This indicator would need to take into account the new system of personal accounts from 2012. Deloitte estimated that people acting on advice would contribute up to 6 per cent of their salaries into their pensions if appropriate. Therefore, even after the new personal accounts system (which automatically enrols eligible employees at a minimum 3 per cent contribution rate) comes into being, the Government would still be able to monitor the numbers of those contributing more than the 3 per cent minimum into their personal accounts – as well, of course, any increase in the uptake of personal pensions funds (allowing for demographic change).

In order to coordinate these various sources of data most effectively, we would urge as a priority that the Government develops a reliable monitoring framework – by selecting the range of indicators that should be used to measure financial capability; identifying reliable sources for the indicators; and then using these same indictors wherever possible year on year to monitor the progress of the financial capability strategy.

We believe a central coordinating body, responsible for the UK's financial capability strategy (see below), could collate and publish this data in an annual "financial health of the nation" bulletin. Its purpose would be to monitor the progress of financial capability strategy and to raise general awareness of the issue.

Question Five

Is a central coordinating function needed in addition to the work of the National Strategy and the proposed Ministerial group? If so, what should it include?

The work of the Ministerial group – to coordinate the work of several government departments and to review a number of existing programme and activities – will be invaluable in helping to ensure that different stakeholders across government work with a unity of purpose.

Nevertheless, the Foundation feels more will need to be done. The financial capability arena is formed through a culmination of projects and activity that have taken place, and at a growing pace, over the past seven years. This activity is spread between the third, public and private sectors, and at national, regional and local level. As such, the field is complex, with a number of different stakeholders operating side by side.

The Foundation has grouped these activities into three separate spheres as the composite functions of a "financial health service", drawing parallels with the NHS:

1. preventative (financial education and skills development)
2. primary care (information, advice and referral), and
3. secondary care (crisis and specialist services).

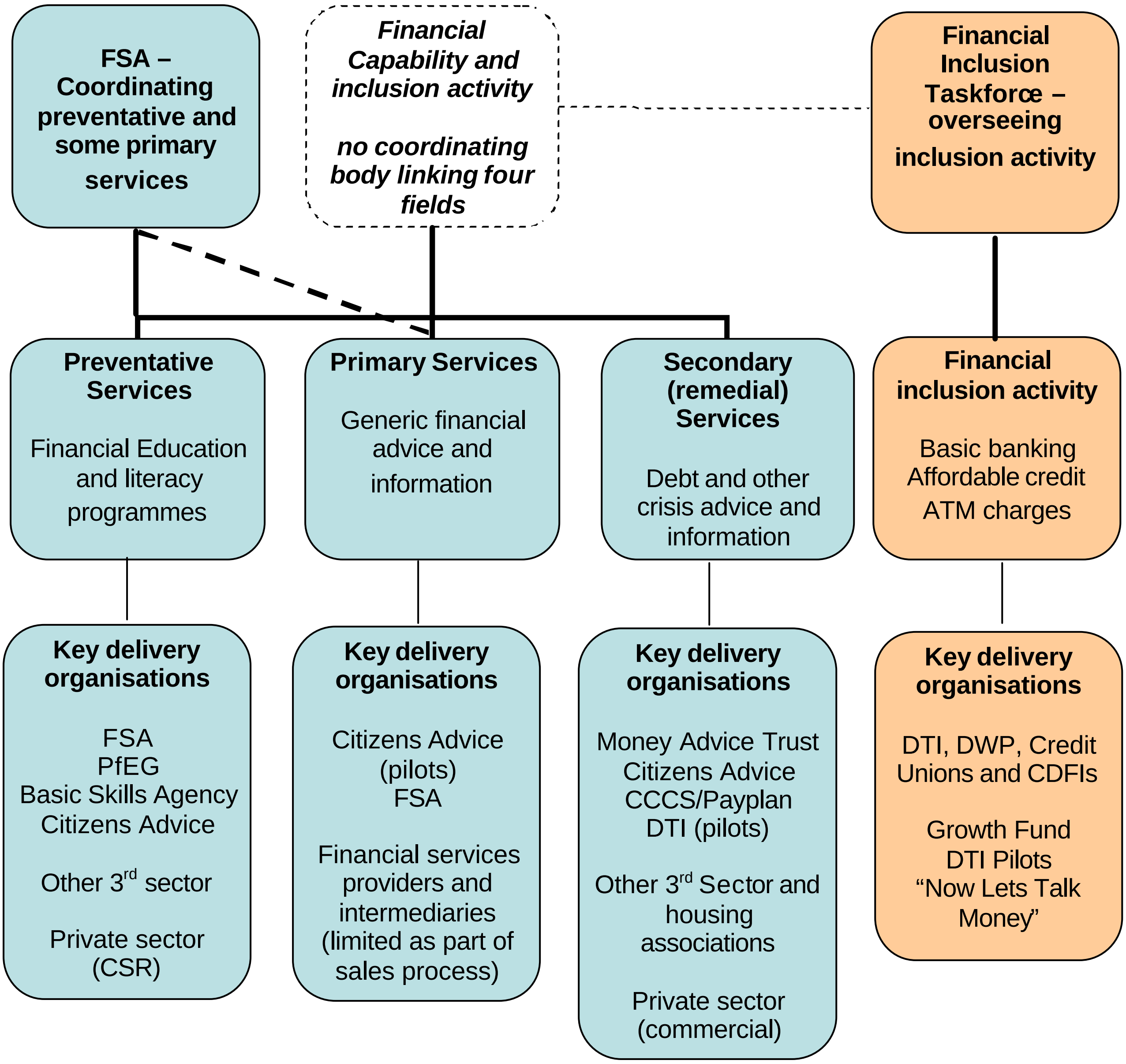
These three functions are bound by a single objective, and as such it is imperative that they are coordinated and complimentary. However, in the current framework, some of the organisations and budgets used to deliver each of these functions operate in silos. The main coordinating body – the FSA – was not designed to coordinate all three functions, as financial capability activity has not previously been envisaged as a financial health service. As such, the FSA mainly coordinates some of the programmes in the first of these functions, with some links into the second, and does not have sufficient reach to carry out a complete overview of the three together. It also has both a role in delivering and overseeing activity. In addition, the Government's Financial Inclusion policy, whilst inherently linked and a key objective of improved financial capability, currently operates somewhat separately.

Therefore, we believe that whilst the Ministerial Group will provide important government oversight to this framework, and help coordinate activity at the highest departmental and strategic level, *operational* coordination – the pooling of budgets and front line activity – will require the creation of a dedicated independent body.

The Foundation also believes that the promotion of financial capability is a major national challenge and a key Government priority – requiring not just greater coordination, but a major proactive campaign to raise public awareness and push the agenda forward. Delivering this dual role requires more than a body with a coordinating function, but rather a high profile and accountable body with a clear remit to promote the financial health of the nation. This task may stretch the current capacity of the FSA, given that its primary function is as regulator to the financial services industry, and it does not have the high profile brand required to carry out the role of financial capability "champion". The NAO is currently "reviewing the economy, efficiency and effectiveness with which the Financial Services Authority has used its resources, when discharging its statutory functions."[16] and should report in June. This would no doubt be a good opportunity to assess what role the FSA ought to play as part of the wider coordinating and governing framework that we envisage.

[16] http://www.nao.org.uk/publications/workinprogress/fin_services.htm

Diagram 1 – the current framework



To compliment the strategic coordination provided by the Ministerial Group, we therefore propose the following:

A single national organisation should be established with a clear remit to improve the financial health of the nation. It would achieve this by coordinating financial capability strategy at an operational level – including the coordination of budgets, quality and content of delivery, and branding; by providing governance of this strategy (i.e. determining standard and targets); and by acting as champion for the issues of financial capability.

This organisation could also coordinate financial inclusion strategy alongside financial capability if it was felt that financial inclusion would benefit from the same level of coordination and governance. It would also work in close partnership with the new Ministerial Group, ensuring the Group's priorities and long term plans were reflected in the creation of new programmes and distribution of funding. The new body would have two roles:

Champion of financial capability (and possibly inclusion)

1. Chief executive of new body would act as a public figurehead of financial capability policy;
2. Acting as spokesperson for policy development in this field and as umbrella representative voice of third sector and other organisations delivering programmes;
3. Raising awareness and commenting on financial health of the nation in line with annual data (see below)

Coordination and governance

1. Coordinating preventative, primary and remedial capability functions, and harmonising the delivery of the three strands of work, including:
    - Acting as an umbrella body for the range of organisations currently delivering capability activity (such as PfEG, the Basic Skills Agency and CABx, and any commercial schemes interested in joining).[17]
    - Establishing standards and protocols of the delivery of financial education and advice, to which members of the umbrella would have to sign up.
    - Establishing a common recognisable brand or quality mark to demonstrate coordinated messages and seamless delivery.

2. Commissioning the delivery of the new national generic advice service[18]
3. Setting interim targets and quantifiable measures of success linked to resources spent, reviewing progress against these targets and remedying gaps with new programmes or changes in resource allocation. If this organisation is an agency of the Treasury or other department, overriding targets could be in the form of PSAs.
4. Ensuring stakeholder cooperation by establishing a strategy board with members drawn from the financial services industry, consumer groups, representatives from third sector delivery bodies, the consumer and financial press, and relevant Minister(s) (perhaps from the new Ministerial Group) and senior officials. Maintaining communication and building strong relationships with the stakeholders across industry, the third sector and government will be crucial for the organisation to discharge its role effectively.
5. As we explain in our response to Question Four, a range of data sources ought to be coordinated to monitor the progress of the Government's financial capability

[17] Membership of this umbrella body could be dependent on minimum quality standards or principles for delivering good quality financial education/generic advice/debt advice. This could create a common brand/quality mark, which would serve to improve the public's recognition of the service as a holistic, whole of life service, and may also ensure that key messages (e.g. regarding positive savings behaviour and pensions take up) could be reinforced throughout a person's life cycle.

[18] Currently the subject of the Thoresen review – for more detail see Question Six

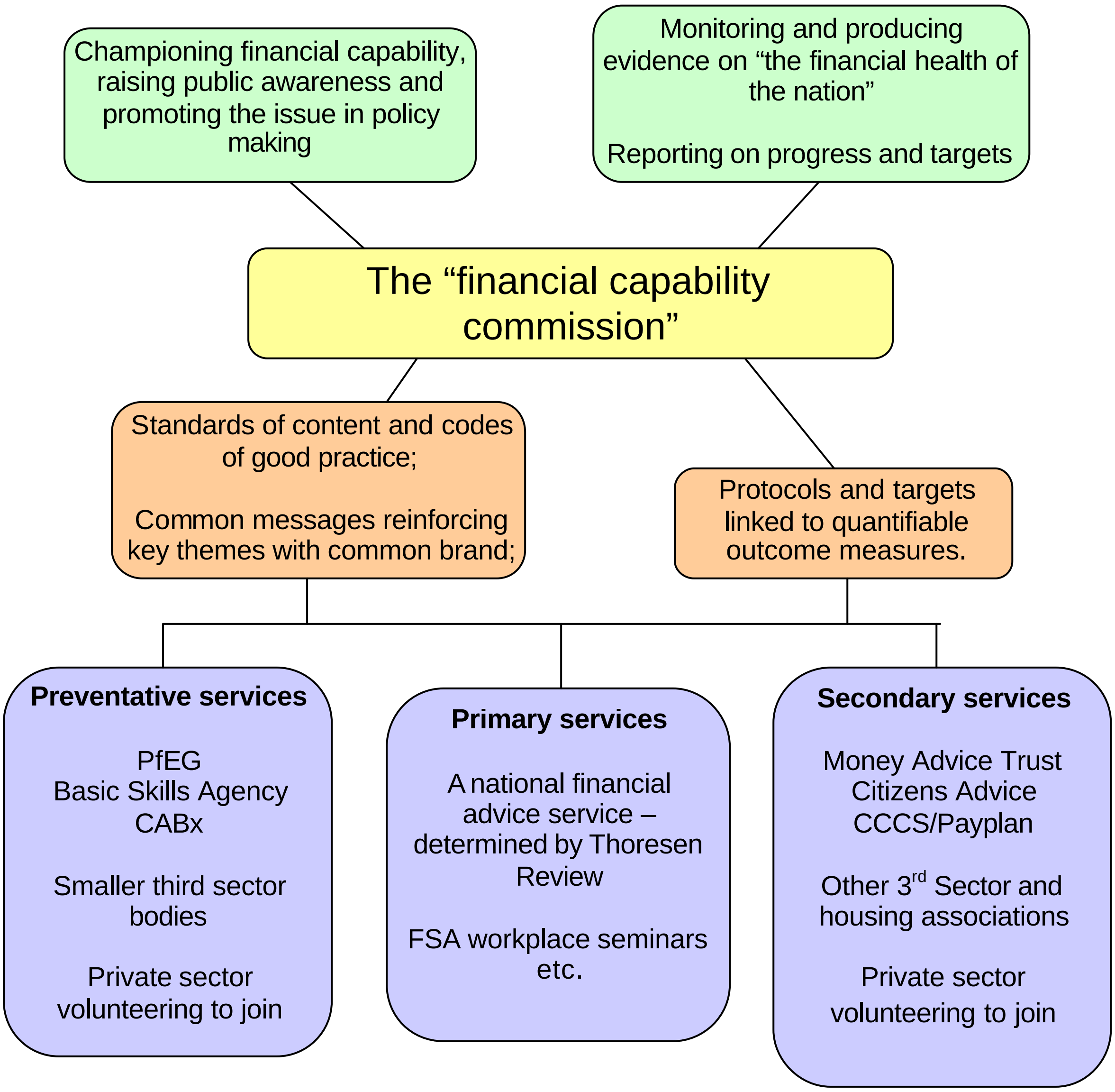
strategy. This new body could take on this role, publicly announcing progress in an annual “financial health of the nation” bulletin, using the data outlined above.

If this organisation were to coordinate financial inclusion strategy alongside financial capability strategy, it may also:

- Absorb the role of the Financial Inclusion Taskforce in overseeing the delivery of financial inclusion strategy, including administering the Financial Inclusion Fund.

The creation of such an organisation would require legislative change. In the meantime, therefore, the Foundation urges the Ministerial Group, in addition to its cross-departmental activity, to work closely with the FSA, FIT, Thoresen Review team and key organisations such as Money Advice Trust in order lay the foundations for greater coordination of all spheres of activity outlined in Diagram 1. We would also like to emphasise that the issue of wider coordination should not delay the Thoresen Review’s work, and that the delivery of a new generic financial advice service need not and should not be dependent on the creation of a coordinating framework.

Diagram 2 – how a single body might operate:



Question Six

Chapter 4 highlights the gap in availability of generic advice, especially for those who are not currently well served by the advice market. The Government welcomes views to inform its work alongside the Thoresen feasibility study, which will examine the practicalities of delivery. Comments would be welcome on, for example, the boundary of generic and regulated advice, the relationship with current sources of advice, and the development of funding models that recognise the benefits to all stakeholders.

6.1 The case for a generic financial advice service

Over the past 18 months, the Resolution Foundation has been investigating the potential for a national financial advice resource to provide generic financial advice to people on low to median incomes (people who earn less than median incomes, but are more or less independent from state support).

As such, we very much welcome the announcement of a feasibility study, lead by Otto Thoresen, to investigate this issue. The Foundation strongly believes that the absence of a national generic financial advice service represents a considerable gap in the Government's financial capability strategy, and one which has a significant impact on large numbers of the population.

As we explain above, at the Resolution Foundation, we envisage three closely linked areas of activity:

1. preventative (financial education and skills development)
2. primary care (information, advice and referral), and
3. secondary care (crisis and specialist services).

Diagram 1 above illustrates these three spheres according to the main stakeholders/ programmes in each. It is clear that activity regarding the provision of generic financial advice is significantly under-developed in comparison to financial education and remedial services. It is usually those people in crisis who currently receive any free financial advice.

And yet despite this gap in the existing framework, the provision of generic financial advice – especially for low to median earners who are least able to access it[19] – could have a fundamental impact on the individual, the Government, and the financial services industry.

Since our inception in October 2005, we have generated a considerable amount of research and evidence to demonstrate just how valuable the provision of generic financial advice can be. Among these was economic modelling carried out by Deloitte, which found that:

If today's young low to median earners acted on advice throughout their lifetime, they would enjoy:

[19] The Foundation estimate there are 15 million people on low to median incomes in the UK. See *Living in the Advice Gap,* Resolution Foundation, 2006

- A potential increase in personal wealth of £60,000 on average by the time they reach 60 years of age;
- An average increase in annual retirement income of £1,500.[20]

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.[21]

If just 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;
- They would cut their total mortgage interest payments in 2010 from £1 billion to £750 million.[22]

With support from McKinsey & Co, we also estimated the possible costs of a generic financial advice service. Using a mainly telephone-based delivery channel with some face to face provision and an accompanying website, the costs of a national service were calculated as £35 to £45 million per annum if it served two million individuals.[23]

We believe these costs are more than acceptable, given the potential benefits of such a service to all stakeholders involved, combined with the likely commensurate reduction in the need for (and therefore cost of) remedial/crisis services over the medium to long term.

6.2 What is GFA? – its boundary with regulated financial advice

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."[24]

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[20] *A National Dividend* Resolution Foundation 2006
[21] Ibid
[22] *The Advice Gain*, Resolution Foundation 2007
[23] *Closing the advice gap,* Resolution Foundation, 2006
[24] *Financial capability: the government's long term approach* HM Treasury, 2007

Yet in spite of this and other similar definitions used widely by Government, the Foundation feels the term "generic financial advice" suffers from several misconceptions. These often lead policy makers and financial experts to underestimate the scope and value of generic financial advice, and many people in the fields of financial capability and inclusion, and those very close to this debate, do not have a real understanding of what generic financial advice is.

For example, those who claim that generic financial advice is about "giving options, not recommendations" are mistaken regarding the nature of the term, in that generic financial advice certainly can and should provide recommendations (although of course in some instances giving options and explaining the implications of each may be the most appropriate course of action). It has been suggested to us that the phrase "unregulated financial advice" might lead to fewer misunderstandings. Nevertheless, the term "generic", whilst imperfect, benefits from being a term with which the financial services industry and others are at least familiar.

We feel that one of the key challenges of the Thoresen Review will be not to define generic advice in a formal sense, but develop an understanding of what generic advice actually means in practice – perhaps through the use of hypothetical scripts and case studies. A new governing body, as we describe it above, would then have the responsibility of promoting this understanding among policy making and industry circles and the public.

As a step in this direction, the Foundation felt it would be useful to set out a number of principles of generic financial advice – many of which tackle some of the most common misconceptions head on. For example, we feel it is essential to clarify that generic financial advice *can and should be personalised.* Similarly, we would urge the Government to bear in mind that generic financial advice *can and should be directional.*

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 action points.
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 strongly believe that generic financial advice has the potential to change people's saving and spending behaviours. As such, the way in which advice is delivered is often as important as the content. Generic advice must not simply provide information to enable people to make informed decisions, but must empower them to act.

Generic financial advice can be delivered according to the principles outlined above and not require regulation by the FSA. 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.

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. Subject to obtaining the necessary Consumer Credit Licence, there is no regulatory boundary to prevent a generic financial advice service providing detailed advice that a client should buy, repay, or vary a specific credit product. Similarly, there is no regulatory boundary that limits advice on the choice of telephone or other utility provider.

However, establishing different boundaries for generic financial advice on different financial products is not a practical or sensible approach. It would be confusing for the client and significantly increase the training and supervision requirements for staff of a generic financial advice service. It therefore makes sense to set a consistent boundary across all financial products, whether or not those products fall under regulatory control.

The Foundation therefore suggests that any new 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.[25]

In practice, this means that a generic financial advice service can advise on types of financial products, but not firm-specific ones. For example, the service can advise on the advantages, disadvantages and implications of the client taking out a cash ISA, but not a *Barclays, Lloyds,* or other cash ISA.[26]

6.3 Generic Financial Advice – the relationship with current sources of advice

A generic financial advice service should be promoted as the first port of call for individuals with general questions regarding their finances. The service should also be seen as a gateway to other types and more specific advice.

Therefore, a national generic advice service would not replace other advice services, but would instead need a range of strong referral relationships with them. This is because generic financial advice, whilst capable of providing valuable information and guidance

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[25] *Financial Capability: developing the role of generic financial advice*. Financial Services Authority, August 2005
[26] This information regarding the boundaries of FSA regulation was provided to the Foundation by Nick Lord, a member of the FSA Consumer Panel, in his paper *Proposals for Establishing a Trial Generic Financial Advice Service,* October 2006.

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 issues), or beyond the scope (such as severe debt problems) of generic financial advice.

In other instances, a generic financial adviser might be able to help a client to a certain extent, and then need to refer them on for further, more in-depth help or guidance. In both cases people will need to be referred on to specialist services, such as Citizen's Advice Bureaux, the Community Legal Service, National Debtline, the Pensions Advisory Service, and so on.

Therefore, we envisage that the creation of a generic financial advice service will not take the place of existing advice services, but may in fact increase the workloads of some advice organisations through referrals (at least in the short term). The implications of such an outcome will need to be carefully considered by Government and the Thoresen Review team – many existing advice services are currently over-stretched and some cannot meet existing levels of demand. The growth in demand that may follow the creation of a new generic financial advice service is an issue which will need to be remedied. In the medium to longer term, however, a generic advice service may reduce demand for particular advice services – such as those dealing with severe debt problems – as overall levels of financial capability may increase and fewer people may require crisis advice.

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, research carried out on our behalf by McKinsey & Co 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 a telephone service can be successfully delivered on a national scale, it is clear that any face to face provision offered by the service would have to be delivered locally, with the help of existing community networks.

One option would be to establish a franchise arrangement with community advice organisations that could co-locate with a generic financial adviser. A national coordinating body – detailed above – could act as a central hub for training of advisers and quality assurance/accreditation, whilst face to face advice could be delivered around the country by different accredited groups. Business Link, which is funded by the DTI to provide information and support for new businesses, uses this approach. For example, Great Western Enterprise Ltd operates the Business Link Franchise for Berkshire and Wiltshire, and benefits from the public recognition associated with a national "Business Link" brand.

6.4 A Generic Financial Advice Service – a funding system which recognises the benefits to all stakeholders

The main beneficiaries of a generic financial advice service will be the individual consumer, the Government and the financial services industry. The Foundation has carried out various pieces of research to help quantify these benefits.

For example, Deloitte's economic modelling suggested that the provision of generic financial advice would leave low to median earners on average £60,000 better off by the time they were 60. The commensurate savings in Pensions Credit would mean the Government would benefit from an extra £50 million per year within four years of an advice service being created, and assuming only around 10 per cent of lower earners took advice. This figure could rise to £200 million per year by 2055.[27]

The financial services industry, on the other hand, would see – within four years of an advice service dealing with just 1.4 million lower earners per year – an increase in life assurance premiums being paid to the value of £225 million, and an increase in money flowing into medium term savings products of about £1.5 billion. Added to this are other benefits yet to be quantified – such as a possible reduction in distribution costs and reduction in the amount of bad debt being written off each year.[28]

It is clear from our research that all three groups stand to benefit from a generic financial advice service. Nevertheless, the Foundation believes that when it comes to the individual consumer, these benefits should not directly imply a funding responsibility. We would strongly suggest that any new service was provided free to the consumer. 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.[29] Making the service free at the point of use should significantly encourage take up, which is the most important objective of any new service. In addition, we believe the contribution the consumer makes through general taxation should be taken into account when considering their contribution.

The Foundation therefore suggests 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.[30] The experience of the *Sorted* advice service in New Zealand indicates that contributions from the industry would also have to come from several providers rather than a few, as this may affect consumers' levels of trust.[31]

The Government should negotiate with the financial services industry some form of equitable Public Private Partnership to fund a new advice service. Contributions from the latter could be collected via the existing FSA levy, a new universal fee based on the size of the provider in question, or some form of taxation on marketing spend. The most important principles to bear in mind when selecting a method for collecting contributions are:

- 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.

6.5 Improving the impact of a generic financial advice service

[27] *A National Dividend* Resolution Foundation 2006
[28] *The Advice Gain*, Resolution Foundation 2007
[29] *Closing the Advice Gap,* Resolution Foundation 2006
[30] Ibid
[31] *Lessons from New Zealand's Retirement Commission for UK policy on financial awareness and advice* Resolution Foundation and PPI, 2006

In addition to the questions specified in the consultation document regarding a generic financial advice service, the Foundation would also like to provide some information regarding the take up and use of generic financial advice. In our modelling of the impacts of an advice service, we assumed that 10 per cent of our target group of low to median earners would access and act on advice they were given. We chose this as a conservative estimate, given that 60 per cent of the low to median earners we surveyed said they would use such a service.[32]

Nevertheless, there is still scepticism from some quarters regarding the potential impact of a service, on two separate fronts. Firstly, some believe that take up will be low and the service will not reach those most in need of advice. Secondly, even if people receive advice, they will not act upon it. We would like to deal with each of these points in turn.

Demand for an advice service
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, and *Now Lets Talk Money* (the Financial Inclusion Taskforce's Facilitating Access Campaign).

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.[33] 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.

We would suggest, therefore, that direct advertising be used alongside less costly, but no less effective, awareness raising methods. This may involve taking advantage of existing trust relationships people have with various professionals in the community, as well as other intermediaries who reach a wide range of people 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 low income groups and plan to use such individuals to promote the take up of bank accounts.[34]

The benefits of this form of awareness raising is that its reach is much broader than other conventional advertising channels, such as television, and tends to be much cheaper. 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

[32] *Closing the Advice Gap,* Resolution Foundation 2006
[33] Ibid
[34] See http://www.financialinclusion-taskforce.org.uk/

benefit from this positive association. This is particularly important as trust and independence are key marketing message of a generic financial advice brand.[35]

The Community Legal Service has successfully piloted a more radical form of this approach. The service tasked GPs, social services and community health teams in different areas to 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 to seek advice 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.[36]

We would also suggest that the Government looks to the use "viral marketing" to promote a new service. Such services 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.

Acting on advice
As we explained above, the Foundation believes generic financial advice has the potential to change people's behaviours, and that the delivery of the message in a way which promotes action is as important as the content of the message itself. There are a number of techniques which can be used when delivering advice to increase the likelihood of action – for example, giving an individual a small number of top priorities, like a "to do" list, rather than a host of information and options, is more likely to illicit a pro-active response. Short term gains should be emphasised alongside long term benefits, working with people's tendency to discount long term gains if this means immediate activity. This and other methods, summarised in our *principles for generic financial advice* listed above, uses the theory of behavioural economics to improve the delivery and impact of financial advice.

Another way in which a generic financial advice service can improve the chances of people acting on advice is by linking to "triggers" – life events which may motivate people to seek *and act upon* financial advice. These may include marriage, divorce, having a baby or becoming redundant. Examples of this approach would be to place marketing information regarding the advice service in key locations associated with trigger events – such as Sure Start centres, registry offices, civil courts, JobCentre Plus, and so on, or to develop referral relationships with the staff in some of these organisations. This would help ensure individuals were pointed to the service in a timely way, at the point at which they need (and may be more motivated) to take action.

Successfully delivered advice can change behaviour. Participants in the recent AXA Avenue programme, for example, 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).[37]

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[35] *Closing the Advice Gap,* Resolution Foundation 2006
[36] *Innovation in the Community Legal Service: A review of 22 projects supported through the Partnership Initiative Budget,* Community Legal Service, 2005
[37] AXA Avenue Fourth Quarter Review: *Learnings and Recommendations* , January 2007

Evidence from Deloitte also shows that those individuals who have a relationship with a financial advisor[38]:

- 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% prepared to take some risk compared to 34%)[39]

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.[40]

Conclusion

Improving the UK's financial capability is a considerable challenge. It is clear that as financial and consumer services offer more choice, and the welfare system becomes more sophisticated, some sections of the population are losing out – not receiving the best services for them, and paying more for the ones they do receive. Poor financial decision making can have a huge impact on people's wellbeing: lower earners who make the right financial decisions through life (e.g. shopping around for the best products, paying off expensive debts first, and so on) are on average £60,000 better off at age 60 than those who do not.

This is why the Foundation welcomes the Government's long term, strategic approach to improving financial capability. Improving financial capability is not just a case of providing information and education, but changing people's skills and behaviours over the longer term. To achieve this, the Government has rightly proposed a coordinated programme of financial education and advice over a person's life time, to be delivered with support across government. We believe this joined up approach – including input from the DWP, DfES, DTI, HM Treasury and other relevant departments – will be invaluable in ensuring a coordinated, "mass market" approach to improving financial capability, complemented with targeted programmes for financially excluded and hard to reach groups.

[38] The advisor may be an IFA or tied advisor with whom people feel that they have an on-going relationship.
[39] Deloitte Wealth & Portfolio Choice 2002
[40] 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

However, the Foundation is also of the opinion that existing programmes and activity to promote financial capability need coordination not just at a departmental-strategic level, but also at the grass roots of delivery and funding. They also require strong governance – targets need to be set, progress monitored, and funding allocated accordingly to fill gaps in delivery. A common brand and minimum standards need to be established. The issue of financial capability also requires a "champion" – a high profile body who can comment on the financial health of the nation and raise awareness of the importance of financial capability among policy makers and the public. We believe these two roles can be combined and delivered by an independent commission and urge the government to consider how the current framework might be adapted, and a new body created, to meet this need.

The Foundation is particularly pleased that the Thoresen Review has been established to explore how a national generic financial advice resource can be delivered, as the Foundation feels that this is a significant gap in current provision and leaves a significant proportion of the population (around 15 million people) in an "advice gap". We feel that the creation of such a service is a policy priority, and should be taken forward with some urgency, whilst plans for a coordinating body and champion are developed and implemented in the longer term.