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Thoresen Review of Generic Financial Advice
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British Bankers' Association's response to the Thoresen Review's Call for Evidence

The British Bankers' Association (BBA) welcomes the opportunity to respond to the Thoresen Review's Call for Evidence.

The BBA is the leading UK banking and financial services trade association and acts on behalf of its members on domestic and international issues. Our 219 members are from 60 different countries and collectively provide the full range of banking and financial services. They operate some 130 million personal accounts, contribute £35bn to the economy, and together make up the world's largest international banking centre.

Executive Summary

The BBA shares the Government's long term aspiration for all adults in the UK to have access to high-quality generic financial advice. Providing the right generic advice at the right time to the right group is fundamentally important in helping people to smooth and better manage the financial peaks and troughs that everyone experiences throughout their lives.

The Government believes that there is a market gap in the provision of affordable generic financial advice and has established the Thoresen Review to research and design a national approach to this shortfall.

We believe that new services should be targeted at those most vulnerable to the consequences of poor financial-decision making in the lower and middle income groups. A narrow target market would have practical benefits in terms of designing and piloting the new service and lessons learnt could inform later Government consideration for broadening the service.

New services should be closely coordinated with, and supplement rather than replace, existing services, especially those provided by the third sector and the FSA. Organizations such as Citizens Advice and Money Advice Trust have an established infrastructure and relevant experience in providing financial assistance to the target market identified above. In addition, the FSA already provides a significant amount of impartial financial information for consumers through its 'moneymadeclear' website¹ and publications. We feel that the FSA

¹ <http://www.moneymadeclear.fsa.gov.uk/>

service provides a good starting point for improving messaging to consumers, i.e. it can be built up more to appeal to, and motivate, consumers on financial needs in a dynamic way.

Whilst the new generic financial advice service should be seen as impartial, and presented as a single brand, it is important that the service does not threaten the current advice/sales approach for bancassurance providers.

The new service should be viewed as sufficiently removed from industry, where trust remains an issue. This supports a case for the third sector to deliver the service, with clear protocols for referrals to regulated financial services firms where appropriate.

Generic financial advice should be ‘enabling’ and we agree with the Thoresen Review’s working definition that advice should be personalised and unregulated. Generic financial advice which is ‘broad but shallow’² in nature satisfies this definition and minimises the risk of crossing the boundary to regulated advice, which should remain the preserve of FSA authorised firms.

Clarity on where suitability obligations apply is essential for authorised firms to engage with, and serve demand from, the generic financial advice service. Both advised and execution-only sales, and preferably a wider range of products than those currently permitted under the Basic Advice regime, should be facilitated here.

Clear protocols for the referral of consumers from the generic advice provider to the regulated financial sector would need to be established. Regulated firms’ compliance and legal obligations would need to be considered as firms would need to be satisfied, from an FSA/FOS perspective, in order to engage with the generic advice handover process. The protocols should provide clarity to consumers on the service that they are receiving at each stage of the financial advice process.

Proposals for the new service should be subject to cost benefit analysis which especially considers the impact of Personal Accounts on the demand for savings and investments. We believe that there is a strong case for Government to fund the advice to be given in relation to Personal Accounts, whilst the case for funding by industry has yet to be proven.

Conclusion

The BBA recognises the potential benefits of enhanced generic financial advice provision for consumers and sees the following as essential outcomes of the Thoresen Review:

1. the right advice is delivered to the right people and the right time;
2. existing services are bolstered and co-ordinated to avoid costly duplication;
3. the generic financial advice delivered is consumer enabling;

² ‘Broad’ - a high level assessment of an individual’s financial position taking into consideration a wide range of personal assets and liabilities and the individual’s life stage and tax status. ‘Shallow’ – identifying a standard course of action given the individual’s situation, which falls short of product recommendation. E.g. a person in your position would typically....rebalance debt; consider a savings account; protection products; low risk investments etc.

4. the new branded service complements and does not inhibit the banks' customer service propositions;
5. effective protocols on the handover between generic advice providers and regulated financial service providers are established;
6. The new service is rigorously costed and fairly funded.

Please see our detailed response to the consultation questions in the Call for Evidence document set out in the attached Appendix. We have focused our response on the strategic questions, as the operational questions are more appropriate for an individual organisation than a representative body.

The BBA would be delighted to discuss the issues raised in our submission with the Thoresen Review Team if that would be of interest.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Angela Knight', written in a cursive style.

Angela Knight

Chief Executive Officer

Background

The BBA's response to the Treasury's recent paper - Financial Capability: the Government's long-term approach – set out our view on how generic financial advice provision in the UK should be developed, as follows:

- Existing advice networks and provision should be bolstered through further promotion, resources, funding and better co-ordination before any plans for a parallel advice network and solution start to be scoped;
- The target market for any new generic financial advice service should focus on assisting those most vulnerable to the consequences of poor financial-decision making in the lower and middle income groups. A narrow target market would have practical benefits in terms of designing and piloting the new service and lessons learnt would inform later Government consideration for broadening the service;

We believe that a generic financial advice service should not seek to serve those customers across the income range which are currently accessing regulated advice directly, nor be an additional mandatory step for consumers to complete prior to taking regulated advice.

The BBA's suggested approach to an effective generic financial advice service comprises an integrated strategy with 3 essential components:

1. Singularly branded service, with multiple entry points for consumers to the generic financial advice services available;
2. Provision of information and high level analysis to assist the consumer to identify their financial position and the priorities and options for action. The service could be provided through several, or a combination of operational channels but would feature a number of common tools to ensure consistency of outcome;
3. Assist the consumer to take next steps given the outcome of stage 2. E.g. provide a steer to consider a range of low risk financial products and/ or to seek advice from their bank or other financial adviser. A portable fact-find could facilitate a handover process to the regulated sector.

This response builds on the above framework.

Preferred Generic Financial Advice Model

As stated above, we believe that any new generic financial advice model should complement and not replace existing services. The service should facilitate a high level assessment of an individual's financial position taking into consideration a wide range of personal assets and liabilities and the individual's life stage and tax status. The service should anticipate the expected impact of Personal Accounts and factor in state benefits provision, given the target market.

We believe that it will be necessary for the generic financial advice process to be quite prescriptive in nature to ensure consistency and quality of outcome, e.g. decision trees, scripts and automation are envisaged. The service should perform a 'triage' function which directs individuals to the most appropriate service 'channel' depending on identified financial needs and priorities, such as:

- debt repayment;
- smarter financial budgeting;
- financial savings – short and long term;
- borrowing;
- emergency provision;
- protection.

Service channels to which consumers could be steered after the initial generic financial advice process would include banks, credit unions and other financial advisors who could provide execution-only or regulated advisory services depending on the individual's needs. The outputs from the generic financial advice process should facilitate follow up actions by the consumer.

The process could deliver a portable fact find with the potential for making a subsequent regulated advice process more efficient. However, portable fact-finds have proved unsuccessful in the advice sector historically given the prevailing regulatory environment. Handover protocols would need to consider regulated firms' compliance and legal obligations. Regulated firms are unlikely to rely on the information without proper regulatory assurance and acceptance by FOS.

Moreover, consumers should be clear that there would be no obligation on regulated firms to rely on the generic financial advice information within a portable fact find, although firms could choose to do so.

We recognise that the process would need to resolve a majority of generic advice enquiries at the first time of asking to be viewed as effective.

The new service should be implemented strategically, with reference to demand spikes, such as the introduction of Personal Accounts.

An effective and co-ordinated generic financial advice service could act as an enabler in driving demand for financial services in the lower to middle income bracket although we view the demand case as unproven. There are concerns that there will be little disposable income left for the target market once Personal Accounts' contributions have been made.

In addition, we would probably need to see regulatory changes to the Basic Advice regime to facilitate a move by the banks to fully service this demand.

It is widely accepted that the Basic Advice regime has proved economically unviable and has failed to deliver its objective of providing advised distribution on a range of low risk stakeholder products. This has resulted in financial institutions limiting their client offerings to either full regulated advice or no advice.

Cost and Funding

We are concerned at new costs which might fall on the banks especially as our sector has made a considerable contribution to various existing financial capability; inclusion and money advice initiatives.

The Government and the Thoresen Review appear to be relying on The Resolution Foundation's recent research³ to demonstrate a business case for the increased provision of generic financial advice. This research has yet to be challenged. We expect the Government to publish a more transparent cost/benefit analysis at an early stage.

This research commissioned by the Resolution Foundation evaluated the potential impact of increasing access to financial advice on the financial services industry and concluded that the overall impact in the long term (by 2060) could be positive, although the impact on different product lines varied. In the short term at least medium term savings and investment products would see increased demand at the expense of debt and credit products and this would point to the savings and investments industry being the main beneficiary of increased demand from the new service.

However, it was clear that the financial services industry as a whole would be adversely impacted in the short term (to 2010). Any benefits beyond that are obviously less certain and will be dependent on the model chosen for generic advice and wider factors. We do not believe therefore that the case for industry funding of a generic advice service (beyond the contributions already being made) has been established. We note that other sectors (eg retail and travel) will also stand to benefit from increased consumer wealth.

Funding allocation would need to take account of the benefits to Government in meeting its policy objectives relating to the introduction of Personal Accounts, which the new service is expected to assist. The impact of industry funding on the new service's brand should be taken into consideration.

Strategic implementation planning must make a proper assessment of how to prompt demand before speeding to a new supply stream within the generic financial advice service.

³ The Advice Gain – Commissioned from Deloitte

APPENDIX

BBA response to the Thoresen Review's Call for Evidence Questions.

STRATEGIC ISSUES

A. What is happening today, how and to whom?

These questions aim to find out what is currently available to help people manage their personal finances in the broadest sense. This includes advice on benefits and debt advice, as well as advice on product markets or specific products. The Review Team is also interested in evidence on similar services, delivered commercially or by the public or voluntary sector.

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?

There is a significant array of existing advisory services which provide support to consumers on financial matters and on which we believe any national generic financial advice solution should be developed.

FSA

The FSA has developed a detailed information service for consumers allowing product comparison, and has recently created the website 'moneymadeclear'

www.moneymadeclear.fsa.gov.uk

The moneymadeclear website not only incorporates a wealth of financial information but also includes a Financial Healthcheck feature which aims to give consumers information to help them identify their financial needs and priorities.

The Financial Healthcheck feedback provides a series of prompts for further consideration by the consumer and provides a model on which a more detailed and personalised generic financial advice process could be developed, if needed.

Citizen's Advice Bureau

Citizens Advice Bureau (CAB) is the largest advice giving network in the UK operating from over 3,000 locations. Advice is delivered through face to face meetings; telephone and e-mail and via the following website:

www.citizensadvice.org.uk

Advisers don't tell clients what to do, but explain their options and the possible outcomes of different courses of action. Clients are encouraged to make their own decisions and act on their own behalf. Most CAB advisors are trained volunteers and financial assistance typically focuses on debt and benefit and tax issues.

Money Advice Trust

The Money Advice Trust offers free and independent money advice to consumers, primarily focused on debt issues. The trust works in partnership with the UK's leading debt advice

services, including Citizens Advice Bureau, and is planning a co-coordinated strategy for money advice across the UK.

www.moneyadvicetrust.org/index.asp

Consumer Credit Counselling Service (CCCS)

CCCS is a charity dedicated to providing confidential, free counselling and money management assistance to financially distressed families and individuals. It offers debt and budgeting advice via a free national telephone service; 10 regional centres and a website.

CCCS's website provides a Debt Remedy service whereby consumers respond to scripted questions to produce feedback which is tailored to personal circumstances.

www.cccs.co.uk

Some other useful websites include:

www.financial-planning.uk.com

www.moneymatterstome.co.uk

www.learnaboutmoney.org

www.moneyadviceScotland.org.uk

<http://www.nationaldebtline.co.uk/>

Bank Provision

The banks offer their own free generic advice to their customers through a wide range of mediums. For example, banks provide customers with a 'financial review' service which covers the range of financial needs; is not product/solution centric and goes through to recommendations by need area. This can move into sales/full advice scenarios but customers can avail themselves of the financial review and then leave the branch to act on their own initiative, having received what amounts to free generic advice which helps an individual think through their needs in a structured way. Any measures to introduce advice must be carefully considered to ensure that they do not undermine this process, potentially contracting the amount of advice provided in the market.

In addition the banks provide funding and support for a number of organizations which provide financial advice to consumers, e.g. the Money Advice Trust (MAT) – (with the large banks recently pledging up to £10m to MAT over a 3-year period (2007-2009)) - and the Citizens' Advice Bureau.

We provide some specific further examples below:

Alliance & Leicester supports the Money Advice Trust and the Citizen Advice Bureau with their "Towards a National Support Service For Money Advisers" project.

Alliance and Leicester supports both Payplan and the Consumer Credit Counselling Service which provide independent specialist advice to customers experiencing repayment difficulties.

Barclays and Help the Aged are working together on the Your Money matters programme, to provide basic money management and debt advice to 30,000 older people and their carers. Barclays staff will be actively involved in the programme, which aims to help older people manage their finances in times of change and plan for their futures. The programme will not only meet the needs of those in debt, but also help to prevent future debt and disadvantage. A further 100,000 older people will receive information and support through targeted publications and by part funding of SeniorLine, a free welfare benefits advice telephone service.

Barclays is also working with NCH to support its work with families, young people and socially excluded groups, to help them improve their money management skills. Barclays and NCH will work together over three years across the UK to help secure financial stability. This project is expected to touch the lives of around 160,000 young people and their families.

Barclaycard Horizons, launched in July 2005, is a unique three year programme designed to help disadvantaged lone parents make the transition out of debt and poverty. The programme is supported by Barclaycard using the skills and experiences of four partners: One Parent Families, Citizens Advice, Parentline Plus and Family Welfare Association. The programme has been developed with four areas of activity, being: Support, advice and information; Funding essentials at school; Adult education and training in new skills; and Back to work.

In 2005 Barclays supported a Citizens Advice pilot investigating the delivery of generic financial advice through the Citizens Advice bureaux network. Barclays is now funding Phase II of the pilot, which will see Independent Financial Advisers (IFAs) working pro bono to deliver generic financial advice through 25 bureaux.

HBOS via the **HBOS Foundation**, have been active in supporting organisations that promote financial awareness and money advice. Over the four years of funding more than 70% of the monies allocated for HBOS Foundation's investment in national projects has been directed towards financial literacy projects resulting in a total investment of £3.25m. Furthermore volunteering schemes link colleagues to community organisations needing help. Projects can range from helping young school children to understand and work with basic numbers and currency through to supporting families who are in extreme financial difficulties by liaising with financial organisations and debt management companies.

HSBC believes that education is a key driver towards achieving a fully inclusive society. In January 2001 the HSBC Education Trust was established to open doors of opportunity by raising educational standards.

HSBC's programme in the specific area of generic advice includes provision of financial support to the Money Advice Trust to improve the quality and availability of money advice within the UK.

HSBC supports and works with the Consumer Counselling Service.

Lloyds TSB developed a branch based booklet covering generic information on operating a bank account and other simple financial products. Lloyds TSB also produces other leaflets for distribution in branch on managing money and help with financial difficulties. The firm contributes over £1 million annually to the free advice sector.

Since the inception of the FSA's financial capability work, Lloyds TSB has been engaged particularly in leading the FSA's workstream on the Workplace. Lloyds TSB have, with the FSA, established and run the workplace pilots which have formed the basis of the FSA's current strategy and programme. Lloyds TSB are currently supporting the FSA through the secondment of a programme director to run the roll out of the Financial Literacy in the Workplace workstream

Royal Bank of Scotland

In 2001, **Royal Bank of Scotland (RBS)** agreed a partnership with the Money Advice Trust that has been subsequently extended to 2009 and has involved an investment of £5,850,000. Through the Money Advice Trust RBS' investment led to the creation of the UK's first training programme for Debt Advisors - *wiseradviser*. The RBS investment funded the creation of training materials, an online learning resource and the funding to deliver between 4,500 and 5,000 places on courses each year. MAT estimate that this improves the quality of advice received by over 340,000 people in financial hardship each year. In addition to *wiseradviser*, RBS's investment meant that National Debtline's self-help pack could be adapted and distributed to over 100,000 people mainly through Citizens Advice Bureaux.

Since 2001, RBS has also been the principal funder of the National Lone Parent Helpline through a partnership of one parent family charities. Since its launch the helpline has fielded over 117,000 calls on subjects as diverse as managing family finances through relationship breakdown, the Child Support Agency, benefit entitlement and employment. RBS is also a core funder of Business Debtline and a '*fairshare*' contributor to debt management organisations such as PayPlan and CCCS (the Consumer Credit Counselling Service).

In 2006, RBS introduced a comprehensive website to give its customers, and other consumers, practical information and advice to help them understand and manage their money. The website has over 100 pages of independently written information, which have been reviewed by Citizens Advice, and provides a link to the FSA 'Money Made Clear' website.

Last year, RBS established a partnership with Citizens Advice and the Metro, a daily, free newspaper with a circulation of 1.4 million, to promote generic financial advice to the Metro's readers. The Metro readership is typically male, aged 35 and living in large metropolitan areas. The campaign is promoted under the name 'Debt Alert' and involves monthly double page features, regular links to related news stories and an online component.

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.)

This information should be sought directly from the providers identified in AS1

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

We concur with the Thoresen Review's working definition for generic financial advice as 'personalised but unregulated advice' given the objectives of the Review. However, the need for more high level advice/information (e.g. rudimentary definitions/information of financial product/services and finance in general) should not be overlooked given low levels of

existing financial capability, as evidenced by the FSA's baseline survey⁴. It might be beneficial to steer consumers to some basic information before taking them through the main generic financial advice process to facilitate more meaningful engagement from the consumer and greater efficiency overall.

The BBA's suggested approach to an effective generic financial advice service comprises an integrated strategy with 3 essential components:

1. Singularly branded service, with multiple entry points for consumers to the generic financial advice services available;
2. Provision of information and high level analysis to assist the consumer to identify their financial position and the priorities and options for action. The service could be provided through several, or a combination of operational channels but would feature a number of common tools to ensure consistency of outcome;
3. Assist the consumer to take next steps given the outcome of stage 2. E.g. provide a steer to consider a range of low risk financial products and/ or to seek advice from their bank or other financial adviser. A portable fact-find could enable the handover process to the regulated sector.

The service should perform a 'triage' function which directs individuals to the most appropriate service 'channel', including banks or other financial advisors, depending on identified financial needs and priorities, such as:

- debt repayment;
- smarter financial budgeting;
- saving and investments – short and long term;
- borrowing;
- emergency provision;
- protection.

Whilst the new generic financial advice service should be seen as impartial, and presented as a single brand, it is important that the service does not threaten the current advice/sales approach for bancassurance providers.

The new service should be viewed as sufficiently removed from industry where trust remains an issue. This supports a case for the third sector to deliver the service, with clear protocols for referrals to regulated financial services firms where appropriate.

The process could deliver a portable fact find with the potential for making a subsequent regulated advice process more efficient. However, portable fact-finds have proved unsuccessful in the advice sector historically given the prevailing regulatory environment. Handover protocols would need to consider regulated firms' compliance and legal obligations. Regulated firms are unlikely to rely on the information contained in portable fact finds without proper regulatory assurance and acceptance by FOS.

Moreover, consumers should be clear that there would be no obligation on regulated firms to rely on the information within a portable fact find, although firms could choose to do so.

⁴ Financial Capability in the UK – Establishing a Baseline March 2006

AS4. Are there examples from overseas which offer good models for a national approach to generic financial advice and why?

The Review could consider the 401k schemes in the United States. The Pension Freedom Act includes endorsed asset allocation scenarios which might be of interest.

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

The Review should consider the lessons learnt from previous Government programmes which are deemed to have been less than successful in engaging with the target audience. How would the Government ensure that the new generic financial advice service delivered against the target audience?

The Institute for Public Policy Research's work should be considered. The Centre for Asset-Based Welfare is the UK's foremost research centre for the study of how savings and assets affect welfare.

<http://www.ippr.org/research/teams/?id=93&tid=93>

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?

We believe that the service envisaged by this review can be delivered by boosting existing and successful advice networks through further promotion, resources and funding and that this approach should be considered before any plans for a parallel advice network are to be scoped. We feel that this approach will most likely result in early and better long term results in spreading advice widely and to those who need it, rather than the development of a whole new structure. We believe that our recommended target audience are most likely to seek and take advice from Community facing organizations and that this is one of the main reasons for us suggesting a critical focus on local providers such as Citizen's Advice and Credit Unions etc.

We believe that a whole new Government backed service would run risks of undermining funding for existing provision and could also adversely impact on existing qualified advice capacity.

The third sector is experienced in delivering advisory services to our preferred target market and has an established infrastructure in place.

We acknowledge that if the new service is to be delivered primarily by building on existing third sector provision then skill gaps relating to the generic financial advice process itself would need to be addressed. Third sector advisors tend to be more experienced in debt management issues. There would also be operational and resource issues relating to the co-ordination of existing services.

Third sector advice tends to be focused on crisis intervention and debt problems so there would be a need to broaden the advice perspective to capture the other dimensions of generic

financial advice. The advice would need to be more preventative in nature to meet Government objectives.

We believe that the Treasury should commission an audit of existing advice provision and that this Call for Evidence should provide the starting point for this.

B. What should the scope of a national approach to generic financial advice be?

These questions are aimed at some of the ‘nuts and bolts’ issues of delivering a generic financial advice (or other relevant) service: getting the content right, identifying and targeting consumers, delivery mechanisms, staffing and accreditation.

BS1. Who should generic advice aim to serve including a view on segmentation?

The target market for any new generic financial advice service should focus on assisting those most vulnerable to the consequences of poor financial-decision making in the lower and middle income groups. A narrow target market would have practical benefits in terms of designing and piloting the new service and lessons learnt would inform later Government consideration for broadening the service.

BS2. Are there groups it should not aim to serve and how might they be excluded or steered away?

The service should not seek to serve those customers across the income range which are currently accessing regulated advice directly nor be an additional mandatory step for consumers to complete prior to taking regulated advice. However we do not feel it either practical or desirable to seek to exclude certain groups but better to consider how best to apply the service.

Non targeted groups could be excluded through effective filtering e.g. Citizens Advice Bureau is experienced in prioritising help to those most in need. This is another argument in support of building on existing experience in the third sector.

The service should include the financially excluded.

If our preferred option of a high level service is adopted then costs should be minimised even if take up by those outside our target market is high.

BS3. What are the best ways of reaching the target market (i.e. those most vulnerable to the consequences of poor decision-making)?

We believe that strategic use of leaflets and established regional/local networks for raising awareness of the service would be highly effective at reaching the target market. (e.g. Housing Associations; Citizens Advice; Doctor’s surgeries; midwife visits etc.) An Internet site would clearly play an important role in delivery though this might not be the most effective medium to initially engage with the target market. By moving towards one branded central package of tried and tested consumer information material, building on the FSA’s existing material, new and improved consumer messaging concepts would be delivered. These would be central to increasing financial capability and not just providing the delivery mechanisms for generic financial advice.

We have some concerns that a ‘NHS Direct’ style telephone service might not deliver on the Government’s objective for preventative generic financial advice provision given consumers’ tendency for a reactive approach to financial matters. In addition, unless used in conjunction with an internet service, a telephone based service does not allow the presentation of issues in a simple graphical way, which many consumers find helpful in understanding ‘complex’ matters. However the Telephone route could provide a cost effective solution and provide consistency via scripts, if used to co-ordinate referrals to existing advisory services.

There are also questions on the demand for financial services within the target market of lower to middle income earners and that this should be considered equally with supply side reform.

Service provision could be filtered towards the target market by the service providers and the nature of the service itself. (E.g. Citizens Advice staff are experienced at prioritising assistance at those most in need.)

Existing advice service providers should be able to provide information on the type and level of enquiries received currently in order to assess demand and target service provision.

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

We believe that the service should be both ‘broad’ and ‘shallow’ in nature (e.g. the service should consider as many elements of an individual’s personal balance sheet, income and expenditure and protection needs as possible with limited scope for opinion on next steps). The main outcome of the service would be a high level assessment of an individual’s financial position which suggests some standard course of action for further consideration.

It might be appropriate for the generic advice review process to have the ability to drill down to product classes and that the service design would need to consider the impact of the introduction of Personal Accounts. The boundary with regulated advice would need to be considered here.

The operational framework of the generic financial advice service would need to be sufficiently flexible to respond to different types of enquiry. The issue driving an individual to seek advice should in turn drive how the advice process works in practice.

Many people’s financial needs are heavily intertwined with benefits and taxation issues and these would need to be considered. Tax and benefit forms need to become compatible with the standard of financial literacy of the target audience and Government campaigns to promote particular benefits, such as the child tax credit, need to have relevant savings messages as a theme.

The new service would not be an alternative to regulated advice but something that works with industry and supports broader financial issues likely to be focused on entry level questions and less related to products.

We note that our preferred target market for the generic financial advice service comprises individuals with debt problems who are actually well served by existing provision. The new

service could focus initially on providing advice which assists consumers from getting into too much debt.

Also see AS3 above.

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?

The FSA has previously identified that the boundary between generic financial advice and regulated advice should lie where product type identification meets product type recommendation.⁵ We feel that a ‘broad but shallow’ approach to generic financial advice would fall short of the regulated advice space as it would exclude product recommendations and merely identify those product classes which might be appropriate given the circumstances of the individual.

FSA guidance could provide clarity on the boundary to assist authorised firms here and a safe harbour considered. Third sector firms could be exempt from FSA regulation but the risk of civil actions arising from inappropriate advice would need to be considered.

Clarity on where suitability obligations apply is essential for authorised firms to engage with and serve demand arising from the generic financial advice service. Both advised and execution-only sales should be facilitated here and preferably a wider range of products than those currently permitted under the Basic Advice regime.

There is a general view among our members that banks should not provide the ‘new’ service but should complement it. It was generally accepted that a tightly scripted process would be required to ensure consistency of assessment outcome and to minimise the risk of inappropriate advice being given. We believe that our 3 point strategic plan would result in generic advice which could enable the consumer to move onto regulated advice if that is appropriate.

It will be important that the demarcation between generic financial advice and regulated advice is clear and that consumers understand the difference. This is relevant to how firms would engage with customers given the perceived risks of FOS action.

BS6. What organisations and services should or could be expected to refer people to generic financial advice?

See BS3 above.

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?

Consumers should be referred to the relevant service channel or sector rather than a specific service provider to maintain the impartiality and reputation of the generic financial advice brand. Service channels would include commercial sectors, the third sector or other service providers.

⁵ Financial Capability: developing the role of generic financial advice – August 2005

Referral to commercial suppliers could be facilitated via links to Trade Association member lists displayed on the FSA's website or the new service's own centrally branded website.

BS8. What qualifications/training do generic financial advisers need and where could the advisers be sourced from?

An automated, decision tree and scripts approach for the generic financial advice service should support minimal qualification needs for generic financial advisors. Stages 2 and 3 of our strategic plan for generic financial advice provision are important here. If we get a new, improved focal point of consumer information/material together, then that will help drive consistency for advisors when they explain concepts to consumers.

Government would need to look very carefully at the difficulties of recruiting already-trained advisers and the consequent drain on existing and successful advice network resources if a brand new service is built from scratch. The difficulty in sustaining a process of identifying and training new advisers and the consequent on-going cost involved and potential mis-selling claims against such advisers (e.g. around advice concerning the proposed national pensions savings scheme) would also need to be considered.

In addition to training and qualifications, advisors will need to be appropriately supervised, with appropriate MI and independent monitoring, to maintain standards.

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

The risks to regulated firms of relying on generic financial advice should not be underestimated.

Clear protocols for the referral of consumers from the generic advice provider to regulated financial services firms should be established. This should provide clarity to consumers on the service that they are receiving at each stage of the financial advice process. Moreover, regulated firms would need to be satisfied that they could rely on generic advice handed to them by the consumer from an FSA/FOS perspective.

Firms would need assurances on potential future liabilities relating to generic financial advice handed across by consumers (by way of a portable fact find for example) for firms to be encouraged to serve the demand generated by the new service. The FSA could provide a safe-harbour for regulated firms using generic financial advice which had been generated by an approved process (script, decision tree etc).

Please also refer to BS5 above.

The Review should consider the extent that the Unfair Terms in Consumer Contract regulations bite here for service providers.

BS10. How would the creation of a new generic financial advice service materially affect advice providers?

The answer depends on the nature of the service and how it is delivered. Our preferred solution is designed to complement and not impair existing advice provision. It would be

important that any new operational methodology implemented as part of the new service is not imposed as a mandatory minimum process/benchmark for regulated financial firms.

Please refer to our comments in AS1 above.

C. Cost and funding

These questions are aimed at getting data on the costs and benefits of a generic advice service. As well as detailed costs, the Review Team is also interested in quantifying benefits, including individuals, wider society and different parts of the financial services industry.

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

The service should be free at the point of delivery. The existence of a new or enhanced service should not preclude commercial financial companies from charging for generic advice as part of their client offerings.

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)?

We do not believe that a commercial case has been established for industry funding of the type of generic financial advice under consideration.

There is a view among our members that the Resolution Foundation research on potential client demand for investments, on which the Government is relying, is questionable and should be challenged.

There are concerns that there will be little disposable income left for the target market once cash deposits and Personal Accounts' contributions have been made.

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

No response.

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?

We are concerned at new costs which might fall on the banks especially as our sector has made a considerable contribution to various existing financial capability; inclusion and money advice initiatives.

The Government and the Thoresen Review appear to be relying on The Resolution Foundation's recent research⁶ to demonstrate a business case for the increased provision of generic financial advice. This research has yet to be challenged. We expect the Government to publish a more transparent cost/benefit analysis at an early stage.

⁶ The Advice Gain – Commissioned from Deloitte

This research evaluated the potential impact of increasing access to financial advice on the financial services industry and concluded that the overall impact in the long term (by 2060) could be positive although the impact on different product lines varied. In the short term at least medium term savings and investment products would see increased demand at the expense of debt and credit products and this would point to the savings and investments industry being the main beneficiary of increased demand from the new service.

However, it was clear that the financial services industry as a whole would be adversely impacted in the short term (to 2010). Any benefits beyond that are obviously less certain and will be dependent on the model chosen for generic advice and wider factors. We do not believe therefore that the case for industry funding of a generic advice service (beyond the contributions already being made) has been established. We note that other sectors (e.g. retail and travel) will also stand to benefit from increased consumer wealth.

The review could consider linking new business generated by generic advice referrals to funding but administrative costs might render this approach uneconomic.

CS5. How can the “generic” element of existing regulated advice processes be costed and its benefits quantified, including the process of customer engagement and the “fact find”?

Our members are considering undertaking some work to quantify the advice given, including generic advice, in fact finds which do not result in business. This would seek to breakdown and quantify the process described in our response to AS1 above. We will consider sharing the results with the Thoresen Review team in due course.

D. How can potential users be engaged?

These questions are aimed at getting evidence on how consumers can best be attracted to using a generic financial advice service, including how they can be motivated to take an interest in their financial affairs before ‘crisis intervention’ is needed.

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

We believe that long term financial capability development is best addressed through mandatory financial education in schools and workplace initiatives. As mentioned above, we feel that by moving towards one branded central package of tried and tested consumer information material, building on the FSA’s existing material, that new and improved consumer messaging concepts would be delivered to encourage the development of financial capability.

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

No response.

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

The brand would need to reflect the following characteristics of the service: Impartiality, trustworthy, fun & relevant.

The FSA's 'moneylaidbare' campaign is a good example and could perhaps be adopted for the whole campaign.

We think that there is a strong case for excluding 'advice' in the service title or brand as consumers, especially our target market, are unlikely to be able to differentiate properly between generic and regulated advice.

One of our members has suggested the service could be branded as the 'BIG' campaign which would deal with the 'advice' issue.

- B = Basic
- I = Information and
- G = Guidance

We believe that the service should have multiple points of entry for consumers and be offered under a single brand. As mentioned above it would be important for the service to be perceived as providing impartial advice and therefore distanced from industry.

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.)?*

No response.

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

Existing locations used by Third sector could be leveraged here.

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

No response.

E. What should the governance arrangements look like?

These questions are about the governance of generic financial advice provision on different bases, including a possible joint Government-industry venture

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)?*

We believe that an organisation with an independent board, with industry representation would be required to successfully oversee the service. The independent board could set standards centrally for regional/local operational oversight.

The Payments Council's corporate Governance arrangements and the The Banking Code Standards Board's approach should be considered.

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

Targets will need to be carefully determined. Key targets should be based on the outcome objective – i.e. actual customer use of the advice, rather than throughput. This will require consumer research. Other targets will depend on the model. The independent board should be involved in setting and agreeing standards

ES3. *What should the relationship be between any new delivery body (assuming one is deemed necessary) and existing services?*

See ES1.

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

If the case for industry contributions is proven then the existing FSA levy payments mechanism would be the most cost efficient for financial service firms, although this should not prevent non FSA financial sector firms from contributing.

Ends.