



Thoresen Review: of Generic Financial Advice

CIH's Response to the Call for Evidence

MAY 2007

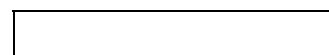
The Chartered Institute of Housing is the professional organisation for people who work in housing. Its purpose is to maximise the contribution housing professionals make to the wellbeing of communities. The Chartered Institute has over 20,000 members across the UK and the Asian Pacific working in a range of organisations - including housing associations, local authorities, arms length management organisations, the private sector and educational institutions.

Introduction.

The Chartered Institute of Housing (CIH) is a professional body for people who work in all sectors of the housing profession whether public, private or third sector. The majority of our members work for public or third sector landlords. Amongst the activities of these organisations is advice and support for people on low or moderate incomes to manage their rent or other housing costs. This includes advice to residents who are, or aspire to be homeowners through the take-up of one Government's or their landlord's low cost home ownership products. A number of our members also work in 'traditional' housing aid and advice and so will also be familiar with advice around money and debt management. Many of our members will regularly refer individual residents in serious arrears to debt advice agencies.

CIH aims to lead the profession in policy development and to turn best practice into common practice. We have therefore been engaged in the financial inclusion agenda since its early stages as an emerging policy. We recognise the potential that it holds for the sector to help it support and deliver its wider business objectives (not least the potential to improve rent income collection performance).

We have therefore seen it as our role promote and disseminate best practice to the wider profession and to act a collection point feedback the experience of



practitioners to policy makers to help refine policy. In support of these objectives CIH has:

- published the report [Life After Debt](#) in 2006. The report illustrates why housing organisations should be engaged with the financial inclusion agenda and how they can make a difference and makes recommendations for developing their approach
- published a [good practice briefing](#) on financial capability and inclusion. The briefing is aimed at housing practitioners, managers and delivery staff across the whole housing sector
- From June 2007, CIH will be employing a full time Financial Capability Adviser who will provide a free consultancy service to housing organisations to help develop their own financial capability strategies. The post holder will also provide solution based training to people working at a strategic level in organisations and help organise training for housing officers and housing managers. The FSA is providing the financial support for the post.

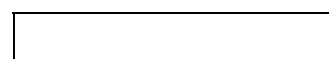
Section A. What is happening today, how and to whom?

CIH is supportive of the work done by the Resolution Foundation in Closing the Advice Gap. We agree with the analysis that there is a need for changing the way that financial advice is currently delivered and in particular:

- There is a need for an independent national generic advice service which is not product focused. We understand from our members that the take up and development of products which would be suitable for people on low incomes is restricted by lack of independent generic advice (partly due to miss-selling). A clear example is the lack of suitable products (partly because of the lack of advice available) for equity release which would enable low income home owners to repair their homes and remain independent.
- There is a need to support people on modest incomes to improve understanding of the financial products available which can help support independence. In the long-term supporting this group should help reduce the risk that they may need state support and/or crisis management debt advice at some point in the future and thus help ensure that scarce resources are better targeted at those most in need.

However, CIH would also strongly argue that there is a need for a generic advice service to support those on the lowest incomes not just those in the middle income group range. Those on the lowest incomes are the most financially excluded and improving their access to and take up of financial services is often a necessary step in breaking the cycle of worklessness and social exclusion. Whilst it is true that the benefit trap may diminish some of the incentives to use financial products there are still clear benefits to the individual and to society of this group becoming more financially included for example:

- Having a bank account is now a virtual necessity to move from unemployment into work
- Good low cost household insurance such insurance with rent schemes developed by social landlords can help people manage through a crisis rather than rely on state support.



Because of a lack of advice, a number of social landlords and housing advice agencies provide generic financial advice themselves but there is a need for a national generalist financial advice service because:

- Coverage of these services is inconsistent and some areas of the country are not covered at all
- The issue of trust and perceived independence may discourage some customers from using a service provided by their landlord, particularly where there is a conflict of interest
- The lack of an independent generalist advice service may be holding back the development of some types of product
- Housing agencies may have knowledge about housing related products (e.g. mortgages or Government supported low cost homeownership options) but they are unable to offer advice about wider financial products (such as pensions). This suggests that there is a need generalist housing advice as well as financial advice.

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

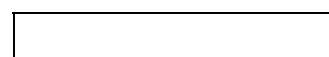
BS1 Who should generic advice aim to serve including a view on segmentation? and,

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

We believe that there should be a core of advice services that should be available free to everyone in a format that is accessible. Advice on wider goods and services could be provided free in a limited range of inexpensive formats such as a website. Core advice should include advice about goods and services which are likely to have the biggest impact on those with the lowest incomes and who are the most financially excluded. Examples may include:

- Basic money advice and money management
- Basic financial products such as savings products and bank accounts, including specialist savings schemes such as the Savings Gateway
- General services for people on low and modest incomes, such as credit unions
- General advice on credit and affordable credit options, advice about extortionate credit and door step lending
- Remedial advice and signposting for people with debt problems
- Advice on household insurance schemes in particular low cost and easy payment options
- General advice on investing payments made for the child trust fund

There is a basic need for the types of advice to provide a better balance of advice provision for people on low incomes. At present existing advice provision tends to be targeted on people with severe debt problems with very little provision for people who are on low incomes and manage their money reasonably well but who would benefit from better understanding and awareness of other products and services.



We are aware that income levels are not necessarily a good indicator of how people manage their money¹.

This suggests that (at least) a basic service should be available free to all. We would strongly argue for all the generic services to be available on a free basis to everyone on low to modest incomes (say household income of below £25,000) as in the long term this would reduce the reliance of people in this group on state subsidy.

It maybe that a charge could be made for people on higher incomes for some types of complex service where a referral maybe required, for example pension planning where a charge could be made with the referral. Another possible option would be to limit face to face or telephone advice for people on higher incomes for a fixed period whilst additional advice such as that provided on national website would remain free.

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

There are no easy direct ways of reaching the intended target group. However, there maybe a number identifiable groups who may act as a reasonable proxy for the intended target. One such group would be the residents of social housing providers. Research by Cambridge University has shown that as many as 84% of financially- excluded people live in the social rented sector this makes social landlords a potentially effective intermediary to market the service. Further there is a clear business case for social landlords to tackle financial exclusion amongst its residents as a strategy to reduce both direct costs and indirect costs and meet their wider (social) business objectives.

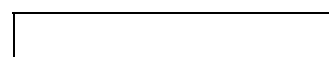
Most social landlords already refer their residents for debt advice – but often this is only triggered once the resident is facing eviction through rent arrears. CIH has been raising awareness of the issue of financial inclusion among landlords and increasing numbers are now providing a more sophisticated approach to assisting their residents. We have heard anecdotally that the lack of money advisors (rather than debt advisors) limits what they can do. Some landlords have their own advisors, but there is potentially a conflict of interests and not all residents trust their landlords sufficiently to accept that advice.

Social landlords do not just provide advice and support to tenants. Many are also involved in the provision of low cost home ownership options together with advice and support for potential new homeowners. These are the most marginal homeowners who would benefit from a degree of impartial advice.

Whether or not people enter homeownership through a social landlord there is a clear case for targeting advice at the point when people are seeking their first home – whether it is in rented housing or in owner occupation.

BS4 What should be the content of generic financial advice? Which subject should be included / excluded? and,

¹ See for example: *Direct payment of housing benefit: what do claimants think?* CIH/Joseph Rowntree Foundation (2007) identified three types of money manager amongst benefit claimants: ordered, flexible and chaotic.



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

In addition to those core advice activities CIH believes that there is a need for access to financial advice around housing options.

For most people, housing represents the biggest single item in the household budget and for those who can afford homeownership it also represents the biggest single financial commitment that most people enter into during their lifetime.

Some elements of advice that people will need regarding their housing options may have a purely financial aspect – such as general advice about mortgages and how they work and the most appropriate type of products. However, there are also some housing aspects to these important long term decisions – such as the most appropriate type of tenure for a person’s given circumstances which may include wider support needs.

There is also a clear need for advice about financial and housing options at other stages in the life cycle. In particular there is a need for advice about options for equity release amongst elderly owner occupiers to pay for home repairs /improvements or care. Research by the Joseph Rowntree Foundation suggests that the market for equity products is underdeveloped partly because there is a lack of impartial advice and the adverse publicity generated from miss-selling of products.

Precisely how the relationship might work between the general financial advice and this housing-related advice needs further thought. We understand that Communities and Local Government (CLG) is very interested in developing the role of local authorities in providing wide-ranging advice on housing matters and options. There might, therefore, be something of a sign-posting exercise – or a more embedded solution – to be done from the generic advice to the housing-related advice.

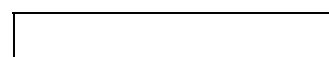
We would be very happy to discuss with Treasury and the Thoresen Review in more detail how this interface could work successfully.

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

Advice and training is important not just for service itself but also for the intermediaries who will be expected to refer people to the service – such as providers of affordable housing. There is a case for housing staff to be also trained to a basic level – this will help ensure that the service is better targeted at those who need it most.

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

While some housing providers and local authorities do provide money advice themselves to their residents, this is in the main because there is no other suitable advice available. Also, it tends to be debt advice and driven by crises, rather than the higher level, more preventative debt advice. Some strategic local authorities also provide this advice more widely in their localities for owners as well as tenants.



In the event that a financial advice service was made available nationally, these organisations would probably re-structure their service around that service. There would probably still be a place for them to provide debt advice for serious cases. In any case, there are many other more positive and preventative financial capability activities that they could undertake in place of providing advice (such as providing learning opportunities) and if required to do so – through an appropriate regulatory / inspection system, for example – then a national advice service would enhance the overall package that they are able to offer, rather than displace their activity.

Section C. Cost and funding

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

We believe that the service should be free at the point of delivery to all those households with incomes below around £25,000 if it is to achieve the objective of reaching those who are most vulnerable to the consequences of poor decision making. People whose finances are under pressure are unlikely to be prepared to pay charges unless they are already aware of and understand the advantages of seeking advice. See also answer to question BS1 and BS2 for options which may help ensure the service reaches its target group.

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

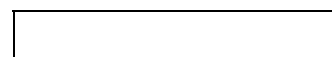
CS3 How can the wider benefits of generic financial advice, to individuals and society as a whole, be quantified? and,

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

As outlined above we believe that the provision of a generic advice service might help develop demand for products which are currently under used and have a poor reputation by helping to build confidence in the customer base.

Direct benefits such as the development of new markets in commercial financial products should be capable of being modelled reasonably accurately especially if robust arrangements are put in place for referrals. There should be systems in place for monitoring all kinds of commercial referrals, including those where referral is to a third party such as an independent financial adviser so that the costs can be fairly shared by those who benefit from the service.

Apart from the financial services industry – which is likely to have a greater take-up of its products – the wider business sector is likely to benefit from reduced indebtedness. The most likely direct beneficiaries from this would be the public utilities companies who should see improved collection rates and a reduction in collection costs. They could reasonably be asked to make a financial contribution to the service. Although this may be difficult to quantify the cost could be set by a fixed percentage of the overall caseload or caseload of debt advice cases. The percentage could be established as part of the evaluation of a pilot scheme.



There are also likely to be other indirect benefits to businesses and society as a whole which result from the service as local economies are better supported. However, these are likely to be much more difficult to quantify.

Section D. How can potential users be engaged?

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

For many in the social rented sector the aspiration to home ownership is a big incentive to change behaviour with some surveys reporting up to 90% of tenants wishing to own their home. Recent Housing Corporation figures put the figure at 46% of those living in the social rented sector wish to move into home ownership.

A number of housing providers are responding to this by helping their residents get their finances in order as a step along the way to owning either part of or the whole of their home. For example Notting Hill Housing Trust has a range measures to assist residents into home ownership these include:

- A free advice and support service to help people identify their goals, consider their options and work towards improving their lives, including achieving their tenure of choice.
- A savings and reward scheme to help tenants develop financial awareness and responsibility; and to save towards a deposit for a flat or a stake in their own home. Regular saving are rewarded with bonuses.
- Offering equity shares as low as 10% which will be cheaper than renting an equivalent home in the private sector and provides an asset.

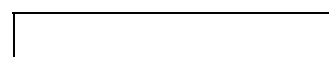
The Regenda Group *Access to Homeownership* project provides advice and information on the whole process of buying a home and is targeted at households that have no previous experience of buying within the family to draw upon. It has found that although many residents aspire to own many do not have the confidence to take basic steps to approach an estate agent or mortgage lender because they simply do not understand what they do and are too embarrassed to ask.

For those on the lowest incomes who cannot afford home ownership many will be motivated to simply manage their money better and reduce stress. The Savings Gateway has been a success and a number of pioneering social landlords have also recognised the potential of offering matched savings schemes and other financial incentives that can help support their own business objectives and encourage good money management habits. Examples of these approaches can be found in [Life After Debt](#) (CIH / Housing Corporation (2006)).

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

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

Social landlords have been using campaign tactics (such as leaflets, use of the local media etc) to help reduce their rent arrears for at least twenty years – with varying degrees of success. Those that have been the most successful usually employ a range of strategies which include:



- Ensure that there is a clear message rent arrears will be acted on and ensure that arrears procedure is applied efficiently and consistently
- Provide a range of options to pay so that payment is easy
- Providing advice guidance and support – at the very least advice on the procedures for claiming housing benefit and signposting towards other agencies who may be able to help
- Target advice and support at those know to be the most risk (e.g. new tenants and large families)
- Provide a range of positive incentives for those that engage in responsible behaviour. For example Irwell Valley’s Gold Service
- Develop links with and support the development of organisations that can provide finance at low cost and encourage saving – for example credit unions.

All of the above have a role to play but what normally distinguishes the best performers is that they have a positive attitude to service delivery that runs right through the organisation. Those that blame external factors on their performance (such as the performance of the local housing benefit service or the courts) usually have the least success.

CIH believes that the provision of a generic advice service would result in a change in consumer behaviour providing all potential intermediaries/stakeholders adopt a more strategic approach to referral as part of their income collection and other procedures. This would require moving away from a model that only makes referrals when people are in financial crisis towards one in which individuals are targeted according to risk. For landlords, this would mean referring those who show the first signs of difficulties as well as those whose are most likely to fall into difficulties (even if their rent account is currently not in arrears). Ideally this should be coupled with incentives to take up the offer (e.g. vouchers for those who receive a consultation). It is this type of strategic approach that the CIH’s Financial Capability Advisor is looking to promote within housing organisations.

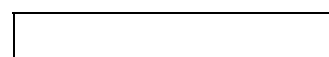
DS5 For face-to-face advice, are there particular locations that would be attractive generally for different segments of the target market?

Given the high degree of overlap between social housing tenants and the target group this suggests that their landlord’s offices might be good locations. It is well known that a significant proportion of people who are referred for advice do not follow it up especially if it means approaching another agency. Referrals are more likely to be a success if they are in the same building. However, if this approach is taken it is important that measures are taken to ensure that message of independence and impartiality is maintained.

Section E. What should the governance arrangements look like?

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

The most important consideration is that stakeholders are fully aware of the new body, what it does and its potential advantages for their own organisation. Key stakeholders would include local councils and social landlords. Stakeholder organisations should be kept fully informed (perhaps through a launch event), be



encouraged to remodel their services to provide a better fit and avoid duplication, and to commit to ensuring that their frontline staff have sufficient knowledge and awareness of the service to be committed to using it.

