

Financial planning advice

The need for a centrally funded
general financial planning service

A briefing note by the Financial
Services Consumer Panel
July 2002

Financial planning advice

The need for a centrally funded general financial planning service

Contents

Summary	2
Background	4
Consumers need and want advice	5
A centrally funded financial planning advice service	5
What would the service provide?	5
Would the service be costly?	6
Who would pay?	6
A growing consensus	8
About the Financial Services Consumer Panel	9
Who is on the Panel?	9
How to contact the Panel.....	11

Summary

1. The Financial Services Consumer Panel are calling for a Government feasibility study into the provision of a centrally funded financial planning advice service. The provision of financial planning advice should help consumers understand their needs whether these are saving more, paying off debts or taking out a life protection policy. It would play a part both in closing the 'savings gap' and in ensuring that people have financial arrangements that are suitable to their circumstances.
2. If financial products, including 'stakeholder products' as suggested by Ron Sandler, are sold without consideration of whether they are suitable to the individual, consumers will suffer. Whilst consumers need some basic steer on what types of products may or may not be suitable for them, there is a disincentive for commercial advisers to give financial planning advice to those who may not buy products. One way to resolve this is to provide generic financial advice via a separate service and to link this with the selling of stakeholder products.
3. The Government and the FSA should undertake a feasibility study into various models of providing a financial planning advice, a financial health check, and should assess these models against criteria including the need for accessibility and highly trained staffed.
4. Such a study should look into:
 - the options for what such advice would look like, e.g. – would it provide a 'diagnosis' or a 'prescription'?

- various models for providing the service. Should it have a high street presence and develop brand awareness of the service? This may include having separately staffed and distinct kiosks in banks. Is there scope for utilising current services such as the Community Legal Service's 'Legal Help' scheme and Citizen's Advice Bureaux? Should there be a tiered service that starts with a telephone helpline and offers referrals for face to face advice?
5. We would then expect the Government to pilot some models in the same way that they are piloting options for delivering the Savings Gateway.
 6. The main advantage of a centrally funded financial planning service would not be to save money on the provision of advice but to separate advice from the selling of products, and therefore provide the mass of consumers with non-sales driven financial planning advice. However, we believe that both government and firms stand to benefit from the provision of financial planning advice and as such, there is a case for joint funding. We also note the considerable tax-relief currently aimed at promoting savings and the, in contrast, small cost of Legal Help, which may be a comparable scheme to our proposals.

Background

7. The future of the retail financial services industry is now more hotly debated than ever. Risks associated with financial markets and providing for the future are increasingly being passed from government and employers to individuals and there is evidence that private provision will not give consumers a comfortable retirement¹. The Sandler review into 'Medium and Long-term retail savings in the UK'² proposes simple savings products sold without advice and the Pickering report proposes substantial changes to the regulation of pensions. At the same time, Ministers are concerned about the problem of over-indebtedness³.
8. Individuals are increasingly expected to provide financially for their future but research by B&W Deloitte⁴ shows that 53% of the population (over 18 and non-retired) have no pension provision. 50% of all pension wealth is concentrated in 10% of the adult population and there is a significant gender gap in those who hold pensions and the value of pensions.
9. Sandler's recommendations, which have been largely accepted by Government subject to consultation, include the introduction of a suite of simple shares-based savings products with tightly regulated product features designed to be sold without the bulk of regulation that current financial advisers are subject to. In particular, there would be no requirement on those selling the products to be qualified, to provide suitable advice and to 'know your customer'.
10. The suggestion that 'safe' savings products can be sold without consideration of whether they are suitable to the consumer ignores consumers' overall financial needs. Consider the scenarios, below.

- A young scaffolding worker with a family, no life assurance, renting a home. It may not be suitable for this person to put £100 a month into a stakeholder pension and other long-term savings vehicles. He needs life cover and a mortgage first.
- An office worker with a £2,500 credit card balance that she never pays off, who moves to a slightly better job. She should be advised to pay off the debt before seeking a medium or long-term savings product, otherwise she will in effect be saving with negative interest.
- A couple who are marrying soon and are thinking of buying their first home in the next few years. They have no 'emergency fund' savings in a bank or building society account. They should be advised to open a savings account for such a fund, and then concentrate on building up a deposit for a property. Equity-linked products are too risky for their savings needs, which are short-term.

¹ The future regulation of the UK savings & investment: targeting the savings gap, Oliver Wyman & Co., September 2001

² The Sandler review in 'Medium and Long-term savings retail savings in the UK' July 9, 2002.

³ Report by the taskforce tackling over-indebtedness, DTI July 2001 and associated press notice, 25/07/01

⁴ Wealth and Portfolio Choice by B&W Deloitte 2002

11. Some consumers need to start saving more, but others should first pay off debt. B&W Deloitte's research shows that 38% of people have non-mortgage debts of, on average, £4600⁵. Of this non-mortgage debt, which totals £79bn, 21% is from 'rolling debt': credit cards, store cards, catalogue debts and overdrafts. All interest rates on debts, but especially on rolling debt, are likely to be significantly higher than any return on savings. It is important, therefore, that these consumers consider clearing their debts before buying long-term savings products.

Consumers need and want advice

12. A survey for the Consumers' Association showed that: 13% of respondents don't know whether they are saving enough; 52% don't think they are saving enough and when asked why, 47% of these say it is too expensive to pay for advice about saving.⁶

13. Consumers similarly find purchasing products complex and often misunderstand the risk attached to types of assets. B&W Deloitte's research⁷ shows that after property, the risk attached to personal pensions and equities are the least understood.

14. The Panel's survey⁸ also found that half of respondents agreed with the statement 'I find it difficult to understand the financial leaflet and materials that I get', two-thirds of people who have ever held an investment or life-assurance product agreed that 'it is essential to seek guidance' when taking out one of these products.

15. Lower and middle income consumers are not currently getting advice. All consumers need a basic steer on what financial products may or may not be suitable for them, but that advice is costly and there is consequently a disincentive to provide it to low and middle income consumers where a sale is less likely to result.

16. Research for the National Consumer Council⁹ asked people to rank the top three factors for an effective financial service and the three most important factors were:

- A clear explanation of everything I don't understand (40%)
- Considers my overall financial situation (26%)
- Completely free advice (18%)

A centrally funded financial planning advice service

What would the service provide?

17. Consumers have complex financial situations and want advice which helps them identify their financial needs. We think a financial planning service should gather information about a person including their assets and liabilities and their attitude towards risk. This process is commonly called a 'fact-find' and it currently fulfills the FSA's 'know your customer' requirement on advised sales but would not be

⁵ This does not include credit card balances that are paid each month.

⁶ Advice for life campaign briefing, Consumers' Association, May 2002.

⁷ Wealth and Portfolio Choice by B&W Deloitte 2002.

⁸ Consumers in the financial market 2000, Financial Services Consumer Panel 2001.

⁹ Consumer Concerns 1999, NCC, November 1999.

necessary under the Sandler proposals. The service should also help consumers understand their financial needs and how to meet them.

18. The outcome of financial planning advice could be:
- A recommendation to take action other than buying a product, such as using any surplus money to pay off debts;
 - a fact-find which consumers could then take to a firm to buy a 'safe-haven product'. Providing firms with a completed 'fact-find' would cut the costs of giving advice and enable more people to access independent advice; or
 - a recommendation of a generic product type.
19. Liability for redress when things go wrong could be assured in two alternative ways. Where a firm is responsible for making a recommendation, based on a pre-completed fact-find, they would be liable for redress should they have made an inappropriate recommendation. If the financial planning service were responsible for making a recommendation of a generic product type that was inappropriate, any redress would be sought through the service.
20. The FSA has committed¹⁰ to producing a 'DIY factfind' to help consumers identify their financial needs. There may be scope for a financial planning advice service to utilise this tool from the FSA.

Would the service be costly?

21. The feasibility study into the a financial planning advice service would need to consider what level of information an adviser would need from the consumer and cost effective ways of collecting it. A service could utilise tools such as a 'DIY factfind', see above. There may also be scope for getting a consumer to provide straightforward factual information in advance by filling in a questionnaire about their current assets and liabilities. The financial planner could then use the time to gain information on their future plans, attitude towards risk and likely financial needs. The feasibility study should consider how much information a consumer can provide in advance about their circumstances and how much information the financial planner would need to find out at a face to face meeting.
22. Financial planning advisers would need to have an in-depth knowledge of the financial needs of lower and middle income consumers and we would expect this to include tax credits, state benefits and debt. These advisers would, therefore, need to meet high training and competence requirements.
23. Consumers who require an adviser with in depth knowledge of complex investment strategies and products suitable for high-net worth individuals would still need the services of independent financial advisers. However, the Sandler proposals, aimed at reducing the cost to the industry in order to increase access to financial products, are likely to result in less demand for qualified advisers than at present and some of these advisers may be recruited into such a financial planning advice service.

Who would pay?

24. Both government and firms stand to benefit from the provision of such financial planning advice since it would expand the market for retail savings products and some consumers will become less reliant on state provision in their retirement. As

¹⁰ Page 8, FSA Plan and Budget, January 2002

such, there is a case for some taxpayers' money to be spent on the provision of financial planning advice as well as a levy on industry.

25. To date, taxpayers' money has been used to encourage savings and provision for retirement through tax relief on retail savings products. We believe that this is an ineffective method of promoting savings as those who benefit from the tax relief are primarily a different group from those the Government is trying to target. Furthermore, tax relief greatly increases the complexity of financial products.
26. Inland Revenue statistics show the estimated cost of tax relief on retail savings products for the years 2000-01 and 2001-02. Table 1, below, shows the tax relief on some of the main retail savings products and Table 2 shows the proportion of those holding these products who are top rate taxpayers.

Income tax relief for:	Estimated cost (in £ million) for*:	
	2000-01	2001-02
Approved pension schemes (personal, stakeholder and occupational pensions)	13 700	14 400
Personal equity plans	875	625
Individual Savings Accounts	420	650
Interest on National Savings Certificates including index-linked Certificates	210	170
Tax exempt special savings accounts	400	150

Table 1: Tax relief by product. Figures from Inland Revenue: T1.5 – tax expenditure and structural reliefs.

	Population GB	Personal Stakeholder Pensions	Occupational Pension Schemes	PEP	ISA	National Savings Certificates	TESSA
Base	58,275	3,435	13,656	6,219	11,053	523	1,444
Pay higher rate tax	4%	11%	10%	13%	8%	16%	9%
Pay basic rate tax	54%	80%	85%	68%	68%	65%	67%
Do not pay tax	39%	7%	4%	18%	22%	17%	22%
Refused / DK	2%	2%	1%	2%	1%	2%	2%

Table 2: Breakdown of tax rate payers of those who hold retail savings products attracting tax relief. Figures from NOP's Family Resources Survey 2001.

27. Table 2 shows that whilst the proportion of the adult population that are higher rate taxpayers is 4%, these people are over-represented in the owners of retail savings products which attract tax relief. Tax relief to higher rate taxpayers is not only regressive but will do little to reduce the savings gap.
28. The Sandler report criticises the current system of tax relief¹¹ for retail savings products for being overly complex and concludes that "this compounds consumer confusion and increases the cost of saving, by adding to the requirement for

¹¹ Sandler report into long-term retail savings, Page 16 of Summary.

advice and the attendant need for regulatory supervision.” The report also calls into question the idea that such tax incentives have increased consumers’ propensity to save, especially in the lower/middle income group.

29. We believe that giving consumers access to free financial planning advice will do more to reduce the savings gap than measures on the supply side such as making products simpler. Increases in demand will benefit the industry as will the reduction in the time they have to take in the sales process. There is a strong case, therefore, for industry to contribute to the funding of the scheme.
30. In April 2002, we proposed a scheme to provide free advice to those purchasing an annuity by levying a fee on providers. Currently insurance companies make a deduction from pension savings to pay commission for advice on annuity provision whether or not irrespective of whether or not customers take up the advice provision. We said that this money could be used for the levy for independent advice.
31. Funding such a generic advice service centrally would have the advantage of deducting the fixed cost of providing advice from the unit cost of making a sale. The fixed cost of a fact find on every customer encounter has been the traditional reason why commercial advisers seem unwilling to provide financial advice to low and middle income consumers where a sale may not result, or the transaction is likely to be of low value.

A growing consensus

32. There is a groundswell of opinion from those representing consumers that impartial financial planning advice is essential both in closing the savings gap and providing adequate consumer protection. The Consumers’ Association have launched their ‘advice for life’ campaign which proposes a National Financial Advice Network with access points that could be community based (e.g. – advice agencies), organisation based (e.g. – workplace) and in mainstream retail financial sector institutions.¹²
33. The National Consumer Council has called on the Government to appoint a taskforce to examine ways of bridging the advice gap for those on modest incomes¹³. Age Concern England acknowledge the advice gap and the need for individuals to get a financial review but warn that such a service must meet the needs of older people which may be different from younger people, such as the financial decisions around future housing options and long-term care.¹⁴
34. The Association of British Insurers in their publication ‘Closing the Savings Gap’ refer to research by Oliver Wyman & Co which they say proves that the savings gap is linked to the advice gap. They go on to say “for some, the right answer is not to buy a savings product, and the urgent financial problem is debt management. For others the right financial answer does not lie with the savings industry, and the urgent financial problem is with a bank account or credit card company. For still others, the service they want is information, generic explanation and re-assurance, not a sale”.¹⁵

¹² Advice for life campaign briefing, Consumers’ Association, May 2002.

¹³ Bridging the gap, NCC, May 2002.

¹⁴ Age Concern England’s response to FSA’s consultation paper 121: reforming polarisation

¹⁵ Closing the savings gap: why the savings industry wants change, ABI July 2002

About the Financial Services Consumer Panel

The Financial Services Consumer Panel was established by the Financial Services Authority (FSA) in December 1998 to ensure that consumers' interests are represented in the development of the regulation of financial services. The Panel is independent of the FSA so that it can: advise the FSA on policy as it evolves, monitor the FSA's effectiveness in meeting its statutory objectives towards consumers, review developments in financial services where they impact on consumers, and publicly report its findings and recommendations. It can raise its own concerns and has resources to carry out its own research.

Who is on the Panel?

Colin Brown (Chairman)

Colin is a consultant specialising in consumer affairs, working with consumer organisations throughout the EU and in Central and Eastern Europe. Previously Deputy Director of Research at the Consumers' Association and Senior Fellow at the Policy Studies Institute, he has over 25 years' experience of research and development in social and consumer policy. He was appointed to the Panel in December 1998 and appointed Chairman in January 2001.

Ann Foster (Vice-Chairman)

Ann is an independent consumer affairs consultant and a formerly Director of the Scottish Consumer Council. She is a member of Postwatch, the Consumer Council for Postal Services, and a member of the Health Professions Council. She was appointed Vice-Chairman of the Panel in January 2001.

Jean Gaffin, OBE

Jean chaired OFTEL's Advisory Committee on Telecommunications for Disabled and Elderly People until 31 December 1999 and is currently Chair of Brent Primary Care NHS Trust. She has extensive experience of working on behalf of vulnerable customers. Previous positions include: the Executive Director of the National Council for Hospice and Palliative Care Services and Chief Executive of Arthritis Care. She was appointed to the Panel in December 1998 and re-appointed in January 2002.

Yvonne Gallacher, OBE

Yvonne is Chief Executive of Money Advice Scotland, set up in 1989 by the Scottish Consumer Council. She has over 13 years' experience of consumer credit/money advice issues and of working with vulnerable consumers in a variety of roles, including debt counsellor, trainer and manager. She has also lectured and co-authored a Guide to Money Advice in Scotland. Yvonne is presently a member of the FSA Consumer Education Forum and Credit Union Consultation Panel. Yvonne is a member of the Scottish Consumer Council. She was appointed to the Panel in December 1998 and re-appointed in January 2002.

Harriet Hall

Harriet is a solicitor with considerable experience of consumer policy and retail financial services. She is a former legal officer with the National Consumer Council, where she has worked on the needs of low income consumers, banking, credit, mortgages, regulation of equity release and long-term care insurance, the Financial Services and Markets Bill and the proposed EU directive on distance selling of financial services. She was appointed to the Panel in January 2001.

Dianne Hayter

Dianne is on the board of both the National Consumer Council and of the newly established National Patient Safety Agency. She was formerly the Chief Executive of the Pelican Centre (a cancer charity). Before that she had periods as the Director of Corporate Affairs of the Wellcome Trust, Chief Executive of the European Parliamentary Labour Party, Director of Alcohol Concern, General Secretary of the Fabian Society, a journalist and trade union research officer. She is a member of the Labour Party and on their National Executive Committee. She is currently also a research student at Queen Mary College, London. She was appointed to the Panel in January 2001.

John Howard

John is a solicitor with extensive experience of consumer issues as a presenter of the daily consumer programme on Radio 4 'You and Yours'. He is currently a freelance broadcaster and his work includes presenting personal finance programmes. He is a member of the Mortgage Code Compliance Board. He was appointed to the Panel in October 2000.

Vinod Kumar

Vinod is a social scientist with market research skills and extensive voluntary and public sector experience of policy analysis and research. Until recently, he was Head of Policy and Research at the Royal National Institute for Deaf People, and he has previously worked for the Commission for Racial Equality. Now retired, Vinod is currently a Non-Executive Director of the Barnet Primary Care Trust, and a member of the Consumer Liaison Group of the Medical Research Council. He was appointed to the Panel in October 2000.

Nick Pearson

Nick is the National Money Advice Co-ordinator for the Federation of Information and Advice Centres. With a career spent in advice organisations including the National Association of Citizens' Advice Bureaux where he was manager of the Money Advice Support Unit, he has particular experience of credit, debt and personal finance issues and of working with vulnerable consumers. He was appointed to the Panel in December 1998 and re-appointed in January 2002.

Paul Salvidge

Paul is a former senior civil servant with experience of regulatory work, employment law, competition, consumer protection, telecommunications, financial services and company law. He was previously Competition Policy and Consumer Affairs Director at the Department of Trade and Industry. He was appointed to the Panel in October 2000.

Richard Smethurst

Richard is Provost of Worcester College, Oxford University; previously a non-executive Director of IMRO, he chaired their Training Standards Panel. He has served as an economic adviser in Whitehall, and on the Monopolies and Mergers Commission, where he was Deputy Chairman. He was appointed to the Panel in December 1998 and re-appointed in January 2001.

Jane Vass

Jane is an independent consumer researcher specialising in financial services. She is a former Head of the Financial and Economic Research Group at the Consumers' Association. Her current committee memberships include Council of the Ombudsman for Estate Agents and the FSA Training Advisory Panel. She was appointed to the Panel in December 1998 and re-appointed in January 2002.

Dave Watts

Dave is a partner in a media business, which is involved in publishing, editing and journalism – personal finance plays a large part in this. He is a former editor of Which? and Money Which? and former Assistant Director of the Consumers' Association. He was also a policyholder representative on the Insurance Brokers Registration Council for nine years. He was appointed to the Panel in December 1998 and re-appointed in January 2001.

How to contact the Panel

Financial Services Consumer Panel
25 The North Colonnade
Canary Wharf
London
E14 5HS

Tel: +44 (0) 207 676 9346
Fax: +44 (0) 207 676 9712
Email: enquiries@fs-cp.org.uk
Website www.fs-cp.org.uk