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Our ref:PR8/PR1

Dear Kate

Building financial capability in the UK: the role of advice

I am writing on behalf of the Financial Services Consumer Panel with our views on 'the role of advice' document published by the FSA earlier in the year. As you know, the Consumer Panel has been discussing the role of generic advice with the FSA but we hope you find this letter useful in pulling our views together.

Before turning to the questions posed in the document, we have some general comments. We see generic advice as meeting a range of consumer needs and being delivered through different services. As a result, we would like to see a definition of generic advice that recognises that it could range from advice that is fairly superficial to quite detailed advice, such as financial coaching. So whilst the document appears to suggest that generic advice is less detailed than basic advice, we suggest that this would not necessarily be the case. Rather, the factor that distinguishes generic advice from basic advice is that it is disinterested and quite separate from the sales process. Similarly, we think that generic advice should be provided that helps a wide group of people, for example people with no access to a company pension scheme or for people approaching retirement with money available but no idea if or where to invest, i.e. – not just those with debt problems.

A. is there a case for:

- a. single generic advice service and/or set of tools with a broad reach, or**
- b. extending the reach and quality of existing tools and services and filling gaps?**

The Consumer Panel believes that the 'advice gap' differs for different consumers and closing this advice gap will require different services. This is likely to include a number of different, existing and new, providers but there is a need to offer clear branding of unbiased generic advice and for a body to set and police standards. The body could offer accreditation, redress arrangements, provide advice on insurance liability and possibly develop a code for participating partners. Consumers should be confident that whichever agency they use, the advice would not wildly differ. This could help to boost public perception. An effective marketing plan should also be developed.

We also note that the existing voluntary sector advice agencies are already unable to cope with demand so additional resources and funding would be required, as well as training, if these agencies are going to be able to build on their current services.

B. should we aspire to a generic financial advice service which is free to every recipient or, instead, free only to certain recipients?

Given the intention to pilot various schemes it would make sense to test within the pilots different payment options. We strongly feel that there should always be an element of free advice available to all, and in particular the 'gateway' should be free. After this initial advice, a number of options could be tested including: advice over a certain amount of time could be charged, with free advice continuing to be given to the neediest subject to some means testing; the Legal Services Commission model should be considered; and people at certain life stages could be given vouchers for advice. Whatever payment and funding options are considered, it would be beneficial to set the system up in a way that encourages the private sector to get involved and help to fill the gaps.

C. how can generic advice services remain distinct from any sales process without leaving people "up in the air"?

D. how will the generic advice process relate to the currently regulated advice process?

Generic advice is likely to generate different types of recommendations for different people, so would fit with the sale of products in different ways. For example, generic advice that delivers a 'portable fact-find' could lead to non-advised sales where the firm could rely on the 'prescription' supplied. More general outputs from the generic advice process may lead a consumer to go to a firm for a product but that firm would have to gather some information themselves to be sure of selling a suitable product.

We believe that generic advisers should be accredited in some way, whether that is by the FSA or another body. In the short-term, accreditation of the unit or centre may have to take the place of individual accreditation whilst the service gets off the ground. Although we note that in Scotland money advisers dealing with applications for Debt Payment Programmes must be regulated and we hope any lessons from this could inform the development of the accreditation for generic financial planning advisers. A qualification for generic advisers should be developed to accompany accreditation and we believe that for a qualification to have any credibility it must be assessed and examined by an independent third party. We note that the current advice sector, where centres are accredited rather than the advisers themselves, would need considerable additional resources in order to accredit individual advisers in this way. We also note the limits of relying on volunteers to deliver good quality general financial planning advice.

E. How far should generic advice tools and services go beyond signposting the route to answers? What liability might attach to any answers or recommendations given?

As above, a variety of generic advice services are likely to be the solution to the advice gap. However, in many cases, we suggest that the output would be a 'prescription' the consumer could take away of what priorities they should consider. We think this could be signed by the advisor and it should have a shelf life.

Professional indemnity liability should apply to all recommendations, and should still exist when a person is advised that, say, life insurance is not a priority.

We do not necessarily think that consumers of generic advice should have recourse to the Financial Ombudsman Service or the Financial Services Compensation Scheme. There may be value in setting a dispute resolution scheme as part of the co-ordinating body.

F. In what ways can generic advice be delivered? What balance should there be between the availability of DIY and assisted (person to person) delivery?

A DIY type of service will play an important role in meeting a variety of different needs but will always be complimentary rather than the whole answer. It would be likely to be suitable both as a gateway or signposting service; and to will meet some consumers' need for assisted self-help. We strongly believe that some people and some queries will always need person to person help. For example, a computer programme that follows a script will be unable to answer specific questions such as: how do I open a bank account?; or what do I do about my mortgage shortfall?

Furthermore, online tools have their limitations and this should be spelt out to the consumer with clear sign-posting if more support is needed. We think that such DIY tools should be approved or accredited. Consumers do not make the same distinctions about information and advice as regulators do and so where a consumer is given what they perceive as a recommendation there should be liability in the same way as person to person advice.

G. How can we encourage people to use any extended or new generic advice tools and services?

The service will require a lot of publicity. Once a marketing strategy is developed, it should ensure that messages reach all groups, particularly those considered vulnerable. To continue to promote confidence in generic advice, the tools and services provided must be robust.

Some of the suggested models for delivering and funding generic advice, such as providing vouchers for people at certain life-stages, may be more easily promoted, for example vouchers could be sent to people new to receiving child benefit.

H. Are there limits to the content and detail of "generic financial advice"?

The range and breadth of the service should be able to look at an individual's situation as a whole. But it should also be able to offer the opportunity of getting advice on one particular issue only (e.g. buying an annuity).

I. If there is a gap in provision of generic advice, why has the market failed to fill this?

The market has failed to provide generic advice largely because the remuneration system is based on making sales and earning commission. Consumers have not been demanding generic advice because they do not realise its potential or existence. Indeed much of the benefit of delivering generic advice will be to society and industry, as a whole. Helping consumers understand their financial needs and

know how to meet them will help to reduce over-indebtedness and reduce the savings gap, implicitly increasing sales. But these 'externalities' of generic advice will not reap returns for those providing generic advice so there remains a need for these beneficiaries, the Government and industry, to help with funding.

J. How can generic advice assist in promoting financial inclusion?

Whilst we do not see generic advice as a tool which will significantly assist in promoting financial inclusion, it must be able to advise people who are financially excluded.

K. How should any extended or new service(s) be funded?

The voluntary sector should not be expected to raise money to fund generic advice. A 'cocktail of funding' with contributions from both Government and the financial services industry is necessary.

We hope this is helpful.

Yours sincerely

A handwritten signature in black ink that reads "Ann Foster". The signature is written in a cursive style with a horizontal line underneath the name.

Ann Foster
Chairman
FS Consumer Panel

cc. Financial Services Consumer Panel
Anna Bradley, Director, FSA