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Closing the Advice Gap Consultation
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Dear Sirs

Closing the Advice Gap Consultation

The Panel is grateful for this opportunity to comment on the consultation which deals with the provision of financial advice to people on low incomes. The Panel has been very interested in the issue of generic advice for some time and is very pleased that positive steps are being taken to explore the options available for setting up such a service.

The Panel is pleased that whilst previously a target group of 12 million adults in the UK had been identified with below median incomes and receiving no more than 20% of their income from welfare benefits, to this group are now added 3 million older people in the same position. This seems a sensible extension since the purpose of providing generic advice to the target group is to help them avoid dependency on welfare benefits through better management of their available resources.

The surveys, focus groups and interviews commissioned confirm a need for financial advice by the target group of a kind that is not at present available. What is not clear is the scale of demand for generic advice from those not in the target group, and how the proposed generic advice service would respond to this.

Generally, we think this pressure to devote resource outside the target group as posing a significant and on-going challenge to the new service. If it is properly branded and launched with an effective marketing campaign – as it needs to be – there is likely to be substantial demand, especially from consumers with above median income. This problem will be compounded, over time, as consumers previously within the target band move above it – which is likely to be a wide scale occurrence as noted on page 5. Even with very clear boundaries and signposting, there is a risk of diffusing resources away from those most in need. One way of mitigating the impact could be to focus the whole service much more on households

below median income, and less on individuals in this category – this could make marketing easier to target and it would avoid spending too much on individuals with below median income who live in above median income households.

The survey indicates a demand for product-related advice but not for guidance on specific products or providers (to avoid compromising the independence of the advice service). How the client takes the next step, for instance purchasing a product (with or without advice), is not discussed in the paper and the Panel would be keen to see this aspect of a generic advice service explored further.

The Report says that feedback from focus groups suggest that the elderly population are likely to require less advice than other groups. However, this is likely to reflect a lack of understanding of the opportunities for actively managing the decumulation of assets.

The report argues that the generic advice service would need a new brand and significant marketing effort to position itself alongside existing services to avoid any perception that the service is associated with consumers 'being in trouble'. We agree. We also agree that the new service should be fully independent both of Government and industry, and that an organisation funded by private-public partnership seems the most plausible way forward. We do however feel that, as a practical matter, more may need to be done to leverage off the experience of existing organisations with relevant experience such as Consumer Direct, Money Advice Centres, Citizens Advice, Age Concern and credit unions.

Response to consultation questions

Q1. Do you agree that there is a problem of access to financial advice for people on low incomes? Do you, in principle support the development of a new national financial advice resource to address this issue?

The Panel agrees there is a problem of access to financial advice and in principle fully supports the development of a new service to address this issue.

Q2. What would be the benefits of such a resource to (a) consumers, (b) the financial services industry and (c) public policy and society more widely?

Many consumers lack confidence to engage with the financial services industry and do not know where to turn for independent impartial financial advice. The FSA's recent capability survey shows how low general knowledge of financial services is. A first stage to encouraging these consumers to engage is to have readily available independent generic advice where they will not be sold anything but will have the basics explained to them and their circumstances analysed. Overall the service will enable consumers to feel more confident in their financial decision making and in getting the best out of the financial services industry. In addition the Panel believes the advent of the National Pension Savings Scheme and auto enrolment requires the creation of a generic advice service. There are some categories of poor consumers with significant debts for whom auto enrolment into a pension

would not be a sensible course of action. In addition a generic advice service could provide important advice on whether consumers should be putting more than the minimum into their pension, what they should do about any existing pensions and what the various options under NPSS mean in practice.

Industry will benefit by more consumers being better aware of what is available and with a clearer idea of what they need. With consumers able to enjoy greater confidence in the industry and an enhanced ability to engage with it, the industry might expect to see increased interest in long term savings and pension products, and higher persistency rates. The industry should also be able to keep costs down if generic advice effectively steers consumers to the right type of product.

Public policy and society - there should, over the long term, be a reduced risk of dependency on welfare benefits if the target group is able to build up a more effective 'cushion' against possible hardship.

- Q3. *Of the options identified for delivering this resource, which would you support? What do you think the balance should be between providing web-based, telephone and face-to-face advice?*

The more the varied needs of consumers could be met the better, hence the Panel prefers Model 4 but realises this will depend on resources that can be made available. The least confident consumers are likely to be those who have the most difficulty dealing with telephone or written information so for them only face to face advice will suffice. There is no doubt too that of all the forms of communicating advice considered the form likely to have the most impact is face to face. The new service will also need to be able to handle diversity eg where consumers have specific language problems or disabilities.

- Q4. *Do you agree that such a resource should be funded by a public-private partnership between the Government and the financial services industry? If so, what do you think the balance of that funding should be?*

The Panel sees public-private funding as the only sensible way forward. There should be a reasonable balance between public and private funds, but sufficient commitment from both will be needed to justify building a new organisation. The fact that 25% of survey respondents said they would be willing to pay a small fee gives some scope for generating income and should be explored further.

- Q5. *What type of advice do you think it would be important for the service to deliver? (a) product-related advice; (b) advice on financial management; (c) advice at different life-stages; or (d) crisis-related advice. Should it deliver any other types of advice?*

The survey indicates demand for all four kinds of advice, and a sensible ambition would be to meet this. The service should also cover needs of older people for decumulation advice, and guidance on suitable routes to product purchase/sale. The service will also need to provide advice about FSA regulation and about rights under financial contracts when people are considering whether they have been unfairly treated, together with information about the operation of the FOS in the event of unresolved complaints. Looking further ahead, there is a self evident need for flexibility in response to changes in the market and in consumer requirements.

Q6. Do you agree that a new, independent organisation would be needed to oversee such a resource? How would you suggest this is constituted? How could it be co-ordinated with existing advice services, especially in relation to the provision of face-to-face advice?

The Panel agrees that there is much to be said for a new organisation to oversee the resource, if sustainable. It may be worth considering if such an organisation could service and accredit advisers in other independent organisations.

Q7. Should it prioritise any particular groups of people and if so, who and why?

The Panel feels it will be difficult to prioritise particular groups of clients if the aim is to be a first point of contact for those on low incomes. Indeed, it may be difficult to turn away people on above median incomes - this point needs to be explored further, as suggested above.

Q8. What would be the key considerations in marketing such a resource?

The key marketing consideration is that the service is an independent source of impartial advice backed by government and the financial services industry, and is intended to be the first place consumers in the target group go to if they have questions about their financial state and prospects. In addition it is critical to get the branding right, as the report notes – approaching the service should be seen as a sensible, normal thing to do not a sign of failure or desperation.

Q9. Do you agree that appropriate advice could be delivered by a generic service and would not need to be regulated? How could quality and standards be ensured?

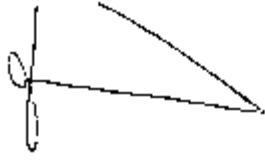
It will be important to agree the scope of generic advice, but based on the FSA's definition (see footnote 4 on p2 of the report), there seems unlikely to be a difficulty. Further consideration needs to be given to how standards and quality could be ensured in an unregulated activity. Perhaps the best that can be done would be to endorse the new National Occupational Standards for Generic Financial Advice, perhaps together with the proposed Generic Financial Advice Council as a voluntary membership scheme. A related and potentially tricky issue is how the boundary between unregulated and regulated advice operates in practice, given that for many consumers the generic advice process may result in a 'hand over' (in whatever form) to a supplier of products.

Q10. What more do you think needs to be done to establish a resource of this type?

The Panel feels a fuller exposition of the four service delivery models would be desirable to understand the assumptions made. There is also scope to learn more, in terms of practical arrangements, from others already working in this or analogous areas.

I hope the above comments will be seen in the general context of our overall warm support for this initiative. The Panel looks forward to being part of the continuing debate on this very important issue.

Yours sincerely



John Howard
Chairman
Financial Services Consumer Panel