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Our ref: Thoresen review/KW

26 April 2007

Dear Otto

Thoresen Review of Generic Financial Advice – Call for Evidence

The Panel is pleased to be able to respond to this call for evidence on issues relating to the provision of a national generic advice service. The Panel has called for such a service for many years and therefore it is very pleased that real progress is being made in this regard.

The Panel sees a real need for clear branding of generic advice and for there to be a body to set and police appropriate standards. There is also a need for a sharper definition of what makes generic advice distinctive. This should help encourage supply, whether by publicly supported agencies or the private sector.

The Panel feels that in establishing the basis of a generic advice service it may be appropriate to develop a vision of how the service might function, based on the 'consumer journey', starting from the need for generic financial advice through to product specific information and advice. In so doing a number of the specific questions posed would be answered. For instance, the boundary between generic and regulated advice would need to be arranged in such a way that the consumer could take advantage of personalised generic advice in order to move readily to the purchase of suitable products. This might require the regulatory regime to permit generic advisers (perhaps if suitably qualified) to recommend classes of investments and provide advice on how specific choices could be made within such a class.

The Panel is not in a position to comment on a large number of the issues raised in the call for evidence, but is pleased to offer comments below where it feels able.

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

The Panel sees generic financial advice as helping move people along this consumer journey of financial services – making them more effective in the choices and decisions they make. The individual should then be in a position to contact a provider, armed with the right questions to purchase a relevant, affordable and appropriate product(s). Conversely it could mean a consumer changing his portfolio of products to meet life circumstances or act as a consequence of negative or positive external factors.

Consumers find themselves in a range of complex financial situations and want advice which helps them identify their financial needs. The Panel thinks a generic financial advice service should gather information about a person including their assets and liabilities and their attitude towards risk. The service should also help consumers understand their financial needs and how to meet them.

The outcome of generic financial 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' could cut the costs of giving advice and enable more people to access independent advice; or
- A recommendation of a generic product type.

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

The Panel believes a generic financial advice service should be inclusive - available to all. It shouldn't create unnecessary or artificial barriers such as income levels. Many consumers would benefit from receiving generic financial advice including middle income groups/people with financial products who may not have shopped around; those facing a financial challenge - from those with money to invest, to those facing a negative situation such as bereavement who may never have engaged with household finances such as pensions. The service should particularly aim to serve all those identified in the baseline survey as vulnerable - including the group of higher earners currently spending beyond their means. The Panel feels that the service will find a 'natural equilibrium' and consumers will ultimately 'self-select' in terms of whether the scope of advice it can offer will be the best option for them individually.

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

As in the answer to BS1, the Panel feels people with complex wealth planning needs would self-select away from generic financial advice. The service needs to be branded properly so it will be perfectly apparent what it deals with and therefore who should use it.

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?

Where generic financial advice identifies that a product purchase is the best outcome for consumers, i.e. distinguish which product type is needed with a hand over for product specific choice, then the boundary must surely be a pretty clear distinction

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?*

If generic advice is about giving individuals the means to make choices, then we should not be too prescriptive about the means by which consumers are passed on to product-specific information and advice. One of the roles of such a service should be to explain the next levels of advice in the consumer journey, for example to explain to consumers the service offered by tied, multi-tied and independent advisers. Any reference to commercial organisations must be done on an impartial basis and only in general terms e.g. 'a bank will be able to provide a current account'. Other sources of independent non-sales driven advice can easily be highlighted, e.g. reference to the FSA's MoneyMadedclear website.

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

The Panel firmly believes the service must be free at the point of delivery or those who are intended to most benefit from it won't use it.

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

The Panel believes there will be many benefits from providing a generic financial advice service. Ultimately consumers will be more 'savvy' which could reduce the risk of mis-selling and mean the industry will develop products more closely aligned to consumer needs. It may also reduce fraud. Better informed consumers will make more efficient purchasing decisions, and potentially it could improve competition conditions.

The Panel also believes that giving consumers access to free generic financial 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.

In terms of measuring the success of the service, these benefits should be factored into the next FSA baseline survey. Further thinking will be needed as to how to assess other qualitative issues such as whether consumers are being offered desirable, affordable and relevant products.

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

There will clearly be a need for an effective media/communications strategy in order to make it real for consumers. There may be a need to incentivise harder to reach groups. There is likely to be a gradual evolution in the need and take-up of the service, which has to an extent already begun - and will grow - with the FSA work on inclusion and workplace talks. There is a clear link to the National Strategy on Financial Capability here which can be exploited to good advantage.

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

Please see the Panel response to CS3 above. The Panel firmly believes the service would result in changing consumer behaviours which is likely only to be seen over the long term. Again the FSA's Baseline Survey will be an invaluable tool in terms of assessing what actions consumers take after receiving generic financial advice.

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)?*

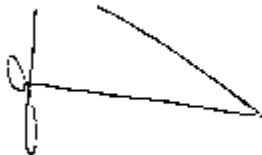
In its response to the Government's long-term strategy for financial capability, the Panel stated that HM treasury should be given an oversight/co-coordinating role of the overall approach in this area. This being the case, the Panel therefore believes the Treasury should have the oversight function for a generic advice service. It may be possible to delegate this authority to another organisation, but the Panel feels this should not be the FSA as this may give rise to some conflict with its regulatory obligations.

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

The Panel believes it may be suitable to permit the authority given oversight of the service to determine what would be appropriate. Clearly, accountability arrangements need to take account of quality assurance and standards, training and compliance etc. It may also be appropriate to use the Consumer Panel/Practitioner Panel as a model to establish an independent body to scrutinise performance, with both industry and consumer input to high level decision making.

The Panel would be very happy to enlarge on any of the answers given above if it would be useful. Please contact the Panel Secretariat if you would like to discuss any of the above responses in more detail.

Yours sincerely

A handwritten signature in black ink, appearing to be 'John Howard', written over a horizontal line.

John Howard
Chairman
Financial Services Consumer Panel