

# Generic Financial Advice and the Thoresen Review

## A View from the Chartered Insurance Institute

### SUMMARY

- The Government is currently conducting a review to explore the feasibility of a personalised but unregulated Generic Financial Advice (GFA) service that would provide basic information and guidance to consumers.
- The Chartered Insurance Institute (CII) has actively supported the creation of such advice and concurs that its creation would have benefits to consumers as well as society.
- The CII also has considerable expertise and experience in issues around financial advice, has recently conducted pilot projects to test the feasibility of such advice.
- It is also essential that steps are taken to ensure that generic financial advisers are suitably competent and the CII has suggested a competency framework and a training solution that could achieve this.

### BACKGROUND

Over the last several years, various stakeholders have discussed the development of a new class of unregulated but personalised basic finance planning that would be accessible to all consumers through a national information and guidance service. This stems from the view that the lack of access to advice can lead to poor financial decisions and the need for crisis intervention, and therefore a more preventative and empowering approach is needed.

- It has been estimated that there is a £27 billion “savings gap” – the difference between what we are saving, and what is needed to fund a comfortable retirement (Source: ABI, 2001). Lord Turner confirmed a large savings gap, although he didn’t quantify it (Turner, 2005).
- 60% of those in the mid-income bracket do not access financial advice (Source: HM Treasury, 2007)
- An estimated 1.5m people will act on the advice given by generic advisers within 4 years of launch – this reinforces the need for a quality service (Source: Resolution Foundation, 2007)
- Benefits will include: An increase in retirement income of £1500, and a two-thirds reduction in the numbers experiencing financial stress (Source: Resolution Foundation, 2006)

#### What is “Generic Financial Advice”?

This personalised but unregulated financial advice is as generic financial advice (GFA). According to the Government, GFA would be guided by the following key principles:

- Impartial from government and the financial services industry;

- Support and informative for consumers;
- Preventative: helping people take charge of their affairs before serious problems develop;
- Available to all consumers;
- Delivered in an environment which is clearly not linked to a product sale;
- Gives guidance to empower individuals to make decisions, but stop short of recommending a specific product and/or provider.

**The Government’s Thoresen Review**

As part of its national strategy for financial capability, the Government initiated a review in January 2007 led by Otto Thoresen, Chief Executive of AEGON UK to explore and analyse the feasibility of creating such a national service. The Thoresen Review published an interim report on 22 October and is expected to conclude with recommendations in early 2008.

**CII POSITION**

The Chartered Insurance Institute (CII) is an enthusiastic supporter of GFA. We have considerable relevant experience in the area of financial advice, and take the view that a quality service is needed that would help both consumers and society. The Thoresen proposals to introduce generic financial advice are a vital step towards delivering a service that is urgently needed to regain public trust and help those consumers worried about endowment mortgages and their long-term pension provision. We see it as part of its responsibility to ensure a quality service emerges from this study and have been actively engaged with the review on an ongoing basis.

The Institute has long believed the creation of an accessible, well-designed, personalised, properly funded generic financial advice service will significantly benefit individuals and society at large. It believes the review itself and the interim report proposing the introduction of generic financial advice is as an important step towards the delivery of a vital service that is urgently needed.

The CII and PFS concur with the Government that the introduction of GFA will benefit consumers not only in need of basic financial planning, giving customers confidence appropriate advice including regulated advice where appropriate.

Issue	Explanation
Well-designed, properly-funded generic advice service will deliver <b>widespread benefits</b> to society and individuals	<ul style="list-style-type: none"> <li>▪ Promoting financial inclusion among parts of the population poorly served by current industry arrangements.</li> <li>▪ A well designed GFA model would streamline the entire financial advice process for consumers and make it more efficient. For example it would remove a significant burden from mainstream regulated financial advisers of having to conduct detailed “fact finds” on their customers.</li> </ul>
The service should include <b>multiple delivery channels</b>	Two key delivery channels – central call centres and face to face -- can make use of existing channels such as life companies, Citizens Advice Bureaux, debt helplines, banks, HR departments, and trade unions.

Issue	Explanation
A <b>competency framework is essential for public protection</b> , given the unregulated nature of the service.	Consumers deserve their GFA practitioners to be competent to deliver the highest possible standard.
<b>Online learning and competency tools will be vital.</b> Reasons: financial plus operational. Given the scale of the ambition and expected speed of rollout.	The service would have to deliver training and examination resources nationwide, suggesting the need for an on-line solution. The CII currently provides e-learning to 1500 firms, and have 52000 registered users. We have a databank of about 20,000 questions, continually refreshed and updated. This Ed.Learn service can easily be modified as a GFA solution.

We think it is absolutely critical that steps are taken to ensure Generic Financial Advice is accessible, safe and efficient; and the CII wishes to do everything it can to help bring this about in particular the idea of the consumer receiving a 'fact find' as part of the GFA process.

## CII EXPERIENCE WITH GENERIC FINANCIAL ADVICE

For many years, the CII Group including the Personal Finance Society (PFS), has been engaged in initiatives to improve financial capability and responsibility:

- The CII Group has undertaken a detailed pilot study in co-operation with local Citizens' Advice Bureaux. The work was done over six months in 2005 in eight towns across the UK.<sup>1</sup> Over six months in 2005, PFS members provided pro-bono face-to-face advice to 376 people of which over 29% had dependent children.<sup>2</sup> Nearly 90% of these consumers reached thought the advice they received was "very helpful".
- We are currently engaged in a second phase of this pro-bono project with Citizens' Advice since May 2007 and are feeding the results into the Thoresen Team. Eighteen local Citizens' Advice Bureaux across the UK have participated.<sup>3</sup>
- We have worked very closely with the Financial Services Skills Council (FSSC) to propose a competency framework that sets out what skills and knowledge generic financial advisers will need going forward.
- We have developed an on-line training and assessment tool for financial advisers called Ed.Learn that can easily be modified to provide nationwide on-line training for generic financial advisers.
- We submitted a detailed response to the Thoresen Review's call for evidence in May, and continue to engage with the review team on a regular basis on developing their ideas.

<sup>1</sup> The towns in the first phase were: Boothferry, Caerphilly, Diss, Gateshead, Kerrier, Knowsley, Medway and Wolverhampton.

<sup>2</sup> In the first PFS-CAB project, financial advisers dealt with a total of 244 enquires. Of these, 36% were single individuals, 8% were single parents with dependent children, 19% were couples with dependent children, and 36% were couples with no dependent children. The main reasons for enquiries were: Endowment mortgages – 24%, Pensions advice – 22%, Debt – 14%, Financial planning – 9%, Equity release – 6%, Inheritance – 3%, Relationship break-up – 2%, Other – 20% e.g. poor advice received in the past on financial products, possible mis-selling, benefits, insurance, advice on mortgage options, some Child Trust Fund queries and surrender fees.

<sup>3</sup> The towns in the second phase pilot are: Broxbourne, Camden, Clydesdale, Dalkeith, Didcot, Dundee, Galashiels, Wymondham, Stockton on Tees, North Liverpool, North Ayrshire, Haddington, Airdrie, Hamilton, Morthwell & Wishaw, Royal Courts of Justice, Lymington, and Penicuik