

**Building
Financial
Capability
in the UK:
the role
of advice**



We welcome your comments on the issues raised in this paper as soon as possible (but by 30 September 2004 at the latest).

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Introduction



Anna Bradley

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Chair, Generic Advice Working Group

Over the last few years, there have been a number of calls for some form of “generic financial advice”.

Consumer groups and the Financial Services Consumer Panel have described it as essential; trade bodies and firms have said

there may be a place for it; and both the Treasury and the Treasury Select Committee have said the case for such advice needs to be explored.

Education can lay the foundations for financial understanding; and clear and timely information can be used by confident consumers to guide their decisions. But many people will continue to find financial services bewildering and will want some customised help to identify their financial needs and so make better decisions. This is where generic financial advice can help.

The time is right to agree whether, and if so how, generic financial advice should be made more widely available. A broader financial capability strategy provides context for this work, and a number of changes to the financial advice landscape are already in train. These include new FSA rules on who can provide regulated advice and how this can be paid for; and the design of a basic advice process for “Sandler” stakeholder products. In addition, the Treasury has recently consulted on legislative amendments to remove any unnecessary barriers to employers and advisory bodies (such as Citizens Advice) providing basic advice on pensions issues.

But what exactly is generic advice, what sort of demand would there be for it, why isn't it already being delivered, how should any new service be

funded and how can partners in the strategy for financial capability help? *Building Financial Capability in the UK*, published in May 2004, announced a priority stream of work on generic advice. I am chairing a working group of key stakeholders to take this work forward¹.

At the Working Group's first meetings, we have established a working definition of generic financial advice, drawn up an inventory of current generic financial advice provision and identified the main questions we aim to tackle. We are committed to answering the questions and developing a work plan by Spring 2005. But if we can move faster, we will. Meanwhile, we wanted to share our thinking with a wider audience, both to allow you to add your thoughts and to encourage a wider debate.

This paper sets out our working definition of “generic financial advice”; gives an overview of what we have found out about generic advice provision currently available and in the pipeline; summarises the main questions we have agreed we must resolve through the project; and describes our next steps and timetable.

We would welcome your contributions, the sooner the better, as we have some pressing deadlines (see *Next steps*), but by 30 September at the latest. In particular, are we asking the right questions, do you know about generic advice services that we ought to know about, do you know of research into generic advice that could help us, and what do you think the answers to some or all of the questions should be?

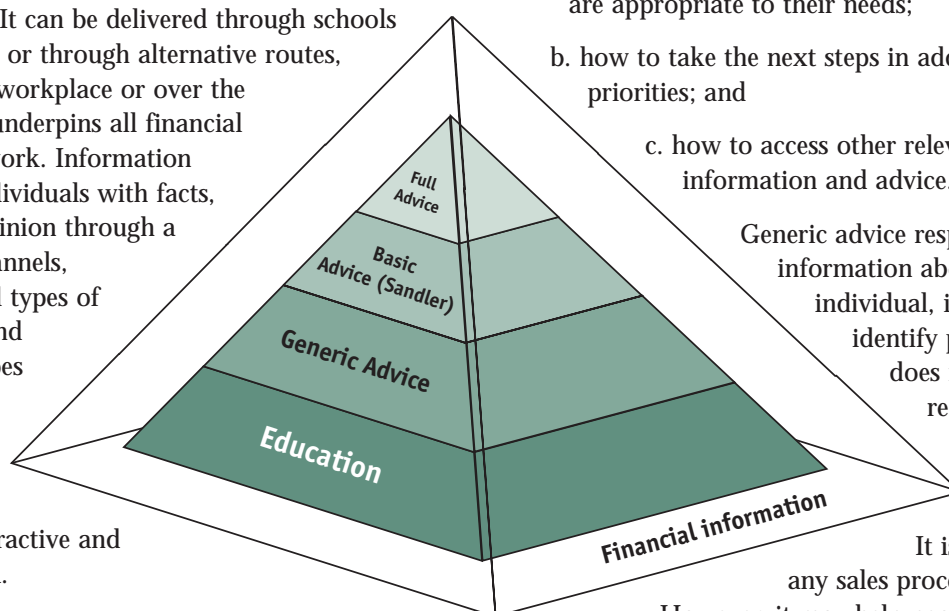
We look forward to hearing from you.

A handwritten signature in black ink, appearing to read 'Anna Bradley', with a stylized flourish at the end.

¹ Terms of reference of the Working Group are on the Financial Capability website http://www.fsa.gov.uk/financial_capability/priorities/advice/tor.html

What do we mean by generic financial advice?

A successful financial capability initiative will use a range of different ways of helping people acquire financial skills and knowledge. This will include the use of education, information and advice (see diagram below). Education teaches skills and knowledge. It can be delivered through schools and colleges or through alternative routes, such as the workplace or over the internet. It underpins all financial capability work. Information provides individuals with facts, data and opinion through a range of channels, including all types of education and using all types of advice services. Advice services are guided, interactive and personalised.



A Working Definition of Generic Financial Advice

We have adopted a working definition of generic advice. We are conscious that this definition begs lots of questions, which is why we call it a working definition. We will refine it as we answer the questions in the next phase of work.

The working definition is:

“Services and tools that use information about individuals’ circumstances to help them to identify

and understand their financial needs and to plan their finances. Generic advice helps consumers to identify:

- a. choices and possible priorities for action which are appropriate to their needs;
- b. how to take the next steps in addressing their priorities; and
- c. how to access other relevant sources of information and advice.”

Generic advice responds to information about an individual, in order to identify priorities. It does not result in a recommendation for a specific product or service.

It is distinct from any sales process or channel.

However, it may help people to make better use of regulated advice which they have already obtained or which they obtain in future. Generic advice can also provide a gateway to a separate and regulated sales process.

Generic advice services and tools are likely to provide information, or pointers to information, as well as advice. The information could be tailored to the individual’s circumstances. So, for example, someone who is dependent mainly on state benefits could be given information about relevant benefits or pointed to relevant sources of information.

Clearly, the amount of data needed about someone seeking advice increases from the initial “generic advice” stage, through selling a stakeholder product to giving full regulated financial advice. It would be useful to help people move on from core generic advice to more detailed advice, should they want to do so, without having to repeat the process of communicating their basic core financial profile. The Working Group will consider whether this can be achieved.

We are conscious that, when it comes to addressing the wider public, we will want to ensure that people understand what is being offered and so feel encouraged to take it up. We suspect that the term “generic financial advice” will not be well understood, and in due course we will need to agree on a description which is more helpful. But meanwhile, “generic advice” is well recognised by those working on various financial capability initiatives.

The financial advice landscape

The regulated landscape is changing. Recent developments to improve the functioning and regulation of retail financial markets and products should improve the climate for generic financial advice tools and services. For example, the

Treasury’s review of the operation of the Financial Services and Markets Act 2000² includes proposals to encourage more employers to promote the benefits of pensions scheme membership to their employees where certain conditions are met. These proposals will clarify that certain independent advisory services may advise about pensions and generic financial matters without falling within the scope of the Financial Promotions regulations. Parliament is also currently considering legislation to prevent pensions information and advice from being treated as a taxable benefit (up to a value of £150 per employee). The proposed introduction by the FSA of a simplified selling regime for basic “Sandler” stakeholder products³ is intended to make a version of regulated advice more accessible to more consumers. Changes to the FSA’s polarisation rules should also have an impact on the availability of advice.

Some of these changes are intended to remove actual or perceived regulatory obstacles to the wider provision of generic advice. The Working Group will consider whether there are any remaining regulatory barriers and, if so, whether they can safely be removed.

2 Financial Services and Markets Act two year review: Changes to secondary legislation, published by HM Treasury February 2004
http://www.hm-treasury.gov.uk/media/F6C57/fsma_2yrrev_vol1.pdf

3 A basic advice regime for the sale of stakeholder products FSA CP04/11 June 2004
http://www.fsa.gov.uk/pubs/cp/cp04_11.pdf



Generic advice - what's available or in the pipeline?

Lots of organisations have started to deliver some sort of generic advice to some people. Not only the financial services industry but also other commercial and voluntary organisations offer generic financial advice on paper or through the internet. *Building Financial Capability in the UK* emphasised that we aim, wherever possible, to build on work that is already being done successfully. So, the Working Group is keen to build on existing and planned services and not to reinvent wheels. If we identify gaps in provision we will consider how to make more of the existing provision through better co-ordination as well as whether new provision may be needed.

Drawing on the input of Working Group members and the inventory of financial capability initiatives collected by the FSA for the national strategy, we have surveyed what we know to be available already. This is summarised in the table opposite.

Our survey has shown that there is currently a variety of generic advice tools and services available, including calculators and financial healthchecks. Some cover all aspects of financial planning. Others are more focused in nature, covering only certain types of issue (the FSA/ABI pension calculator, for example).

There are very few tools that filter information about individuals to provide an overview, with suggestions as to their priorities for action.

Some existing tools and services provide an introduction (if desired) to a financial adviser. Authorised financial advisers, of course, generally give generic advice as the first (and sometimes only) step in their relationship with a consumer.

Various government and voluntary agencies provide telephone helplines, with some focusing on particular issues within financial advice (such as OPAS, which gives advice on occupational pensions, and the Inland Revenue on tax) and others extending beyond financial matters (such as Citizens Advice Bureaux). Some employers also provide generic advice and financial information to their employees, drawing on commercial providers (such as their employee benefit consultants or pension providers) in doing so. These providers may also offer personal financial coaching to individuals.

In the area of planning for retirement, the Department for Work and Pensions has launched its Informed Choice programme, which widens provision of state pension forecasts and provides retirement planning tools. It is taking powers through the Pensions Bill to require all employers who do not actively support their employees' pension savings to give them access to a decent standard of pensions information in the workplace.



Generic Advice currently available

Type of Advice	Types of Provider
Websites offering a broad range of basic money advice	<ul style="list-style-type: none"> • Some authorised IFAs • Some authorised product providers • Some generic advice sites, often run by internet providers
Websites available only to certain affinity group, e.g. employees or union members	<ul style="list-style-type: none"> • Many commercial employee benefit consultants for employees of their clients • Software houses supporting authorised financial services firms
Advice available in a variety of formats but on specific topics only	<ul style="list-style-type: none"> • Many debt advisers offering telephone, postal and face-to-face advice • Citizens Advice, offering wide range of money and advice but not generic financial advice • Several Government Departments offering telephone and internet advice on their area, e.g. tax, pensions • Wide range of internet calculators, e.g. for pensions, interest rates, mortgages
Person-to-person advice, by telephone, face-to-face or both on generic financial matters	<ul style="list-style-type: none"> • Various commercial financial planners and personal coaching services
Face-to-face advice, possibly as a precursor to purchasing a financial product - part of the fact finding process	<ul style="list-style-type: none"> • Normal work for financial advisers, whether IFAs or tied

Generic advice in the pipeline

The FSA has developed a prototype DIY interactive financial healthcheck that could provide an 'entry level' tool. This could help to fill some of the gaps in current provision. The FSA is now considering whether and how to develop it in a way that would be designed particularly to encourage and help those new to personal finance to take the first steps in financial planning. It could also be used by more experienced or sophisticated users when they want to review their needs. Work is under way to establish whether there is a need for such a product and, if so, whether the FSA is the right body to provide it. If the conclusion is that there is a need and that this is an appropriate role for the FSA, the next step will be to agree the objectives and specification for a DIY healthcheck and to identify and assess options for its delivery. This work is being taken forward alongside the wider work on generic advice.

One of the seven priority projects being undertaken as part of the national strategy on financial capability is on planning for retirement. The Department for Work and Pensions is leading this

project, which builds on their Informed Choice programme⁴. This programme includes the development of a range of interactive tools to help people plan ahead for retirement.

Similarly, a number of the other working groups within the national strategy want to deliver generic advice as part of their work. There will therefore be close ties between these working groups (in particular: Workplace, Young Adults and Families) and generic advice.

The FSA recently completed some research with Citizens Advice to explore the scope for financial information being provided to the general public via Citizens Advice Bureaux⁵. This confirmed that clients of Citizens Advice Bureaux would be happy to refer to Citizens Advice for generic financial advice because they view Bureaux as providing an independent impartial service; and that advisers are receptive to expanding their role in this way, while noting the need for training and guidance. Citizens Advice now plan a small pilot to provide basic financial advice with the assistance of authorised financial advisers and the Society of Financial Advisers.

4 Simplicity, security and choice: informed choices for working and saving DWP February 2004
<http://www.dwp.gov.uk/publications/dwp/2004/inf-choice/informedchoicesum.pdf>

5 Widening the scope? FSA and CAB research into delivering financial advice through the CAB FSA CRPR 26 May 2004
<http://www.fsa.gov.uk/pubs/consumer-research/crpr26.pdf>

Key questions the Working Group will address in the next phase

We have ruled very little in or out at this stage so as to allow a variety of different proposals to emerge. But to make further progress, we need to focus on the key questions and issues listed below and make recommendations to resolve them.

A. Is there a case for: a. 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?

One option would be to develop a single, centrally-administered, generic advice service or set of tools. Those who wanted to get generic financial advice could use either this new central service or tools or (as now) one of the services or tools which others chose to provide. A variant might be the provision of mandated outcomes with providers free to design the service or tools themselves.

The provision of a central template or design could give reassurance as to independence and reliability, as well as to the separation between generic advice and product sales.

Another approach would be to extend the reach and quality of existing tools and services (voluntary, public and commercial) and fill only identified gaps in reach or content. The reach and quality of existing tools and services might be improved through a single accreditation or branding (market testing would be needed to establish what consumers might regard as a trusted brand). This approach could make it easier to tailor tools and services to different audiences, but might be more difficult to manage and co-ordinate.

We will look to identify the costs and benefits (taking into account consumers' needs) of each possible approach.

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

Most of the demands for generic advice are on the basis that it should be "free" to consumers. So who pays? Ultimately, of course, other members of the general public. But through what channel?

Although providing basic generic advice which is free to recipients could encourage people to use it, this would reduce incentives for existing providers to maintain, develop and market their own tools and services. It would also deter new entrants. This could result in a reduction in choice and competition. On the other hand, many people who could benefit from generic financial advice do not recognise the possible benefits. Some lack confidence in the financial services marketplace in general. Requiring people to pay for generic advice may create just another obstacle for these consumers and mean that they do not take advantage of it.

Is it possible to find a way to enable those who need generic advice to have easy access to it and, at the same time, avoid creating a disincentive for others to provide a wider range of generic advice services or tools?

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

There is a strong view in the Working Group that generic advice services need to be distinct from any sales process in order to guarantee and make visible the independence of the advice. But there is also a recognition that generic advice tools and services can fail to result in beneficial action if they leave people with no obvious route to follow if and when they decide they want to buy a product.

The difficult question to resolve is how to keep the basic advice distinct from a sales process, while also facilitating connections with sales for those who want this.

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

The development of generic advice tools and services should clearly be considered in the context of changes in the regulation of the retail market, including changes in the polarisation rules and the introduction of “Sandler” stakeholder products. There is a clear need to consider how regulated and generic advice fit together and interact. For example, will authorised advisers be able to work forward from information gathered, and recommendations given, through a generic advice process? And how far can and should questions in the generic advice process mirror or cover those which are needed for the sale of stakeholder products?

It may even be that those offering generic advice need to be authorised or accredited in some way to give consumers confidence and to reduce potential consumer detriment. Authorisation would require changes to the Financial Services and Market Act.

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?

The Working Group takes the view that generic advice should at least identify priorities for consumers to consider. But should it also suggest a more definitive course of action (e.g. buy a pension, start an ISA, pay off debt, etc) or assist in assessing, for example, how much life insurance or “rainy day” money is needed, or how long income protection insurance would be needed for? There may be some liability attaching to answers or recommendations given.

We need to be clear what liability follows from providing generic advice, the extent to which it depends on how specific the advice is, and where consumers might go for redress, if appropriate.

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?

Many commentators think that the best way to give generic advice is face-to-face. But this could be very expensive as a mode of delivery for everyone. And some people may prefer the greater privacy of communicating by phone or through a computer.

What would it take, for example, to install computer systems that could be used by an adviser with minimal training, or be used direct by consumers in “public” places like libraries? Using technology as a key delivery channel would reduce costs and increase availability, though it would not be an attractive channel for everyone.

To help analyse the costs and benefits of different delivery channels, we need to consider what proportions of consumers:

- a. would be willing to use only face-to-face advice services, and how they can be identified;
- b. would use telephone services; and
- c. would use DIY channels.

The Working Group will look to identify the most effective and efficient ways to deliver generic advice.

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

The development of generic advice tools and services is only half the story: consumers need to know that the tools and services are available and want to use them.

One approach is that generic advice could be offered when consumers are especially inclined to consider financial matters for some other reason. Such a “needs-based approach” underpins the priority projects within the national financial capability strategy, and the Workplace, Young Adults, and Families projects should all help provide opportunities to interest people in generic financial advice.

But more will be needed to alert consumers to the value and availability of generic advice. The Working Group thinks that there will be a need for marketing and promotional work for any new generic advice services, but it may be most cost-effective if any such activity promotes all the work under the strategy, not just the generic advice strand.

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

Some advice tools and services cover issues beyond financial services. Conversely, some cover only a subset of issues within financial services. In practice, for any given tool or service, there may be a trade-off between covering all financial needs (including day-to-day finances and budgeting, borrowing, benefits, insurance/protection, saving/investing and tax implications) and ease of use for consumers. Consumers will want to be able to find quick answers to their questions and will not expect to have to run through a full gamut of questions to do so. Getting the right balance between depth/breadth of content and usability will depend partly on the target audience for a particular service or tool.

We will need to consider whether there needs to be a range of tools with a variety of range and depth; and which areas (if any) are too complex to be addressed under the umbrella of generic advice at all. A further issue for the Working Group is whether it is useful to define some “core” coverage of financial matters which is needed for the tool or service to fall into the definition of both “generic” and “financial”.

Key questions continued

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

As mentioned above, currently there are very few tools or services available that allow individuals to provide information about their personal situation and which then provide tailored suggestions about possible courses of action. Understanding where and why the market is not delivering these tools and services is going to be important in our work, because we do not want to discourage others from developing generic advice as part of their existing or planned work.

Potential providers may be deterred because, for example, they are unable to make a sufficient return, or they believe there are regulatory obstacles, or because the provision of generic advice carries high liability risks.

Alternatively, a lack of demand from consumers may deter providers. Consumers may not appreciate the potential value of generic advice and may therefore be unwilling or unable to pay for it, or uncertain about reasons for accessing it even if offered free of charge. Lack of demand from consumers may be caused in part by lack of trust in the financial services industry.

Another possible explanation is that the market in the provision of generic advice is new and under-developed and there has not yet been time for it to grow to its full potential.

The Working Group will, of course, be considering the costs and benefits of different solutions with a view to any recommendations producing a net benefit.

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

There is a range of existing generic advice services designed to assist people dependent on benefits or who have significant debt problems, many of whom will also be financially excluded. Many commentators argue that generic financial advice will be particularly useful for those who are financially excluded. It may therefore be necessary to tailor generic advice specifically to meet the needs of this group. Citizens Advice and other advice organisations have particular expertise and experience in this area. The Working Group will consider how it can best contribute.

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

Current generic advice services are funded by a range of sources: government, financial services firms, and the voluntary sector. The costs and benefits of extending services and/or developing new ones must be analysed carefully. It will then be necessary to consider who would fund any new service proposed.

What are the next steps?

The timetable

By Autumn 2004 we will have some answers to the questions posed in this paper, together with some estimated costs and benefits for possible implementation and plans for any research needed. We will also have more detail on the development of any Healthcheck tool. By Spring 2005 we hope to have plans for any pilots and proposals for funding them.



Keep in touch

These are challenging issues and that is why we are inviting your help. We will be posting progress reports on the strategy and the work of all the working groups on the FSA's website at: www.fsa.gov.uk/financial_capability. We welcome your comments on the issues raised in this paper as soon as possible, and by 30 September at the latest.

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