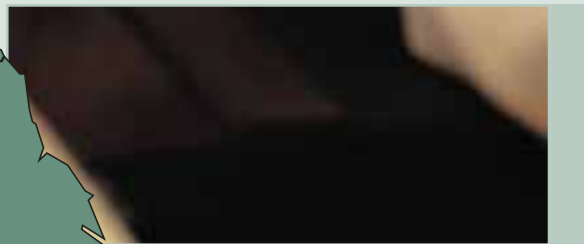


Financial Capability: developing the role of generic financial advice



We welcome your comments on the issues raised in this paper as soon as possible and, in any event, by 31 October 2005.

Contact the financial capability team via our website:

www.fsa.gov.uk/financial_capability

or by email: fc.advice@fsa.gov.uk

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Foreword



Anna Bradley

Director, Retail Themes Division, FSA
Chair, Generic Advice Working Group

The National Strategy for Financial Capability is about helping people to acquire knowledge and skills which enable them to make capable and confident financial decisions. Financial advice is a key component of that strategy: from the wise

words of our parents to the considered professional view of a financial adviser, we can all do with help from time to time to enable us to make more sense of our financial arrangements. Good financial advice leaves each of us feeling more secure in our personal and professional lives, and more confident about the future.

We benefit as a society if people are able to take greater responsibility for the financial decisions they need to make. And, if consumers of financial products, all make better, more informed decisions, then the market will respond with more appropriate and better value products and services.

For the financial services industry too, greater use of advice services can bring benefits. An informed, well-advised public will want to make better use of their money, purchasing a range of financial products and services to meet their needs. For all these reasons, generic advice has been chosen as a priority workstream for the financial capability strategy.

To take the work forward we established a Working Group on Generic Advice, which I chair. We published a paper in July 2004 explaining where the Working Group had got to in considering whether, and if so how, generic advice should be made more widely available. The paper raised a series of questions on which views were

invited. This publication reports on progress with our work and sets out the next steps.

We received a wide variety of replies to our July 2004 paper. But taken together, the strong message was that there are problems in both the supply of and the demand for generic advice services. Commentators were clear that it would help if our work made it clearer to providers what generic advice is and gave confidence to consumers that generic advice services are of a suitable quality.

In response, our early work has focused on elaborating the definition of generic financial advice (see page 6) and developing a quality assurance standard for its provision (page 13). We are working with the Financial Services Skills Council on the latter and expect the project to be complete in early 2006. We have also already developed and launched a pilot version of the healthcheck which you can test out for yourself at www.bbc.co.uk/healthcheck and www.fsa.gov.uk/consumer/healthcheck

More generally, we have commissioned a review of delivery of advice services to help us understand more about what works best for consumers. We are publishing the review (see www.fsa.gov.uk/pubs/consumer-research/crpr43.pdf) with this document. It is clear from this that we need to do more work in two particular areas: exploring the potential for telephone delivery of generic advice and identifying how best to address the demand side issues to engage consumers with generic advice. We are working on a plan for taking this work forward next. We plan to report again on the next phase in the first half of 2006.



Introduction

Background

Advice services are the missing link for many consumers. Having help from somebody with specialist knowledge can make the whole process of dealing with personal finances quicker and easier.

Financial education is an essential baseline that can raise financial skills and understanding, but even the very best in education can only take us so far. Good financial information is useful to those with the ability, motivation and time to find it, understand it and use it. But this leaves a large number of us out on a limb.

Getting help to guide us through an analysis of our situation and our options can make the difference between action and apathy in the face of difficulty. Of course, getting advice doesn't absolve us of responsibility for the decisions we make as a result, but it does make the process less formidable and decisions easier to reach.

The obvious benefits of financial advice services are not reflected in their accessibility to consumers in the UK. This is particularly the case for generic financial advice. That is why the National Strategy for Financial Capability identified generic financial advice as one of its priorities and why the Working Group was set up.

Generic financial advice

Generic financial advice is not as widely available in the UK as we think it should be, but our research has identified examples of generic financial advice that is currently available and which might be developed in the future.

We give some examples in yellow boxes. These are illustrative, non-exhaustive and do not imply any endorsement of the services described.

In July last year, we published a paper setting out how we intended to approach this subject. We established a working definition of generic financial advice, looked at existing provision and set out eleven key questions which we wanted help to address. This document contains some practical proposals for taking the work forward. It is not the last word, but it is the next step.

The proposal later in this paper that relates to a set of quality assurance standards is not accompanied by a detailed cost benefit analysis. This is because adoption of the scheme would be voluntary. As a result, this work differs from the work which the FSA normally undertakes in fulfilling its regulatory role and different processes apply. In addition, the set-up costs of developing the standards involve only modest expenditure.

Feedback on our July document

In July 2004 the FSA published an initial document, *Building Financial Capability in the UK: the role of advice*, which set out the approach which the Generic Advice Working Group was taking on this issue.

The written responses, together with discussions with many interested parties, have helped us take this work forward and have informed the contents of this paper.

Key elements and themes in the responses and contributions received are summarised in these green boxes over the following pages.

Mind the gap

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

Respondents gave a range of reasons why generic financial advice is not more broadly available. The main supply and demand issues cited were:

Demand

- Many consumers find financial matters unappetising and will not proactively seek financial advice unless forced by circumstance.
- A lack of understanding among consumers that financial advice has value and might be worth paying for.
- A sense among some consumers that financial advice is somehow not appropriate for them.
- A lack of trust and confidence in the financial services industry and a sense that financial advice is not impartial.

Supply

- A concern that generic financial advice might slip into regulated territory and, hence, potential providers prefer to 'play safe' and either not give financial advice at all or only give full regulated advice.
- The difficulty of providing generic financial advice commercially to make a reasonable profit or at least break even.
- A feeling that branch offices would be a natural place for giving generic advice, but there are fewer of these than in the past.

Our view is that there are separate but related shortcomings on both the demand and the supply sides.

First on the demand side, cost can discourage consumers from seeking financial advice but, as respondents have said, cost is not the only disincentive affecting the demand for financial advice. Many consumers are suspicious about advice services delivered by commercial financial organisations. They are concerned that advice might be driven by a need to achieve sales rather than by a desire to deliver impartial advice. Respondents suggested that firms could deal with this shortcoming by the existence of a recognisable quality assurance standard that specifically separates the advisory and sales processes.

In addition, for very many consumers there is no culture or tradition of seeking professional financial advice. Many people are unaware of such services or simply do not think they are suitable for anybody but the wealthy. Or, in the case of the voluntary agencies that are giving advice, many consider them as an appropriate resource only for those with significant financial problems.

Work under the National Strategy for Financial Capability focuses on engaging people with their own financial situation and needs, at a time and place suitable to them, and in an environment they trust. A good example of this is the pilot schemes to deliver generic financial advice in the workplace. Here we are finding that many people do want to find out more and take follow-up action after having had their interest stimulated.

Some people are able to pay for financial advice services. If you can afford to pay, and do not have the time, expertise or inclination to manage your personal finances single-handed, then seeing a regulated financial adviser is the obvious thing to do.

Let us now take a look at the supply side of the equation. Regulated advice – which can end with detailed recommendations about the purchase of complicated financial instruments, such as mortgages or investments – is provided by skilled and qualified people who require appropriate financial rewards for their efforts. Full advice services are therefore relatively expensive to provide. As a result, financial advice services are marketed to consumers who are willing to pay a fee for advice or who are likely to purchase products which will generate revenue for the adviser. In both cases of course, the consumer is paying but, in the latter case, the payment is less direct.

How can generic advice assist in promoting financial inclusion?

There were not many direct responses to the question of how far generic financial advice can assist in promoting financial inclusion.

Some respondents felt that generic financial advice was not the most appropriate tool to meet the needs of people in these circumstances, who often have very specific issues that need addressing. Some said that this should not be a priority for the generic financial advice project.

Most respondents who expressed a view said that generic financial advice should be designed to meet the needs of the financially excluded where possible.

At the other end of the wealth spectrum, money advisers in the not-for-profit sector provide unregulated, generic financial advice services. But even though the costs of regulation do not apply, there are other costs, of course, including that of covering liability for the advice given. The resources of these providers are limited and stretched and, as a result, the services are largely geared up to deal with clients that have severe debt problems.

This means that for many consumers there is a real absence of affordable, accessible, trusted advice on how to manage their money now and to plan for the future.

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

There was almost complete consensus that generic financial advice should be available free at the point of delivery.

Some respondents qualified their view with the words 'in principle', noting that the costs of free delivery might be excessive, particularly for a face-to-face service.

Others suggested that those who could, or those who wanted to, might pay all or some of the costs, so long as everyone had access to a service at a price they could afford, which would mean some availability of a free service.

The good news is that there is a shared ambition among many of the existing advice providers to increase the supply of generic financial advice. There are a number of organisations which already offer a variety of types and standards of generic financial advice and would be keen to do more under the right circumstances. These include commercially motivated mainstream financial services firms (including some high street banks) and not-for-profit advice services, employers, colleges and universities. We give examples of these (see yellow boxes). However, many are wary of the regulatory issues and the risks of liability. And potential new providers may be unaware of the benefits of offering generic financial advice to their constituency of consumers and also unsure what they can deliver and how they can deliver it.

Overall, there is a great deal more that could be done to supply more comprehensive generic financial advice and an appetite for doing it. So what is stopping providers from taking a bold step forward?

Delivering generic financial advice might appear to be a risky business. Some might see uncertainty about, for example, precisely how far they can go before the advice being given requires the advisers to be authorised by the FSA. More generally, there are concerns about the extent of liability that organisations have for the advice that they give. The absence of clear standards across the generic financial advice field is unhelpful, and it is difficult to promote generic financial advice to consumers who do not understand what it is or what it can offer. And the very existence of the Financial Capability project and its workstream on generic financial advice might cause prospective providers of advice to hesitate and wait for some grand solution to fill the generic financial advice gap.

We would like to take some of the uncertainty out of providing generic financial advice. We want to create an atmosphere in which a network of different providers can all contribute to making generic financial advice of a more consistent quality more readily available.

The different providers in this network would all deliver generic financial advice in ways which best meet the needs of their particular client groups, but the advice itself would be of a consistently good quality.

One of the key aims of our work programme is to create more certainty for existing and potential new providers. We hope this will encourage them to offer more generic financial advice and to offer it in ways which are readily accessible.

A network of advice services

We would like to see a network of generic financial advice services that are readily available throughout the UK and are provided free or at an affordable price.

The network should be easily accessible through a variety of channels including face-to-face, over the telephone and digitally (including the internet). Services might be provided through the workplace, on the high street, at college or university or in people's homes.

And the network should be promoted in an engaging way, encouraging people to take advantage of this help to address their personal finances.

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?

Respondents' views were divided between the benefits of a single service and those of a diversity of providers.

However, it was evident that respondents had different visions of what a 'single service' might be. Some viewed it as nothing more than a basic, web-based diagnostic tool, while others envisaged a fully fledged, face-to-face, national advice service. So their views were coloured by their particular vision.

Several respondents suggested having a defined quality standard and an accreditation mechanism as a means of contributing to the building of a trusted brand.

For existing providers, it will be essential that this work creates an opportunity, and does not pose a threat. It needs to be consistent with the FSA's regulatory approach – proportionate and risk-based – and work with the grain of current delivery. It should enable providers to add value to what they currently offer and to improve the services they provide to consumers.

To achieve this, we will establish a framework within which sustainable provision of this kind of generic financial advice can flourish.

The framework will identify and promote a particular form of good practice in generic financial advice. It will establish an approach which is voluntary. A key success measure for this approach will be the numbers of providers, commercial and not-for-profit, which adopt it. We will be working closely with current providers of generic financial advice to ensure that what we are proposing is practical and is consistent with existing good practice.

What's in a name?

Those dealing with policy in this area broadly understand the term 'generic financial advice'. But it is not a name that is likely to generate any enthusiasm among consumers.

We think there would be value in adopting a collective name for the generic financial advice network we want to see built. We don't think there is an obvious candidate: there is already a host of names for different types of advice – financial, regulated, basic, simplified, money and debt, for example. We need to find something that describes

the range of generic financial advice services, which is meaningful for consumers and clearly different from full regulated advice.

We will be developing such a name, alongside the work that is being done on branding and promotion for services and tools that will be created under the financial capability banner. Clearly, this will need to be tested with consumers. For the purposes of this paper, we have continued to use the term 'generic financial advice'.

A framework for generic financial advice

The following pages set out the elements we think are needed to provide a framework for generic financial advice. They include:

- a definition of generic financial advice;
- a clear understanding of the risks associated with giving generic financial advice;
- 'good practice' on the conduct and recording of generic financial advice sessions, particularly regarding any handovers to sales or regulated advice processes;
- voluntary quality assurance standards to tie all the above together, and
- an approach to the promotion of generic financial advice and the value it offers which will engage consumers.

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

No clear consensus emerged from respondents on the question of who should pay for generic financial advice. Three possible candidates for funding (the industry, the FSA and the Government) were supported to varying degrees by different respondents, and some suggested a 'cocktail' of funders.

It was clear from the nature of the replies that many people had answered the question on the assumption that generic financial advice would be provided through a single service and that funding would therefore be needed on a centralised basis. This might explain why there was a slight preference for Government funding among respondents.

Most of those who proposed industry or FSA funding qualified their answer by saying that the funder of choice would depend in part on the likely cost.

The definition of generic financial advice

The basic definition

In our 2004 document, we offered a working definition of generic financial advice, which was broadly accepted by respondents. Our working definition has only been slightly refined as:

‘Generic financial advice is a set of services and tools that use information about individuals’ circumstances to help them to identify and understand their financial position and their needs and to plan their finances accordingly. Generic financial advice helps consumers identify:

- their current financial position and, therefore, the choices and possible priorities for action appropriate to their needs;
- how to take the next steps in addressing their priorities; and
- how to access other relevant sources of information and advice.’

In our 2004 definition, we didn’t deal with the question of coverage. We have found the most useful way to discuss this is in terms of ‘breadth’ and ‘depth’.

Breadth

The breadth of an advice service is the range of subject areas that it covers.

We want to define generic financial advice as including the following subject areas:

- budgeting;
- borrowing (including mortgages);
- emergency provision;
- protection; and
- savings and investments (including retirement planning and converting assets into income).

For most people, this list represents the basic set of personal finance issues that they might want a generic financial adviser to address.

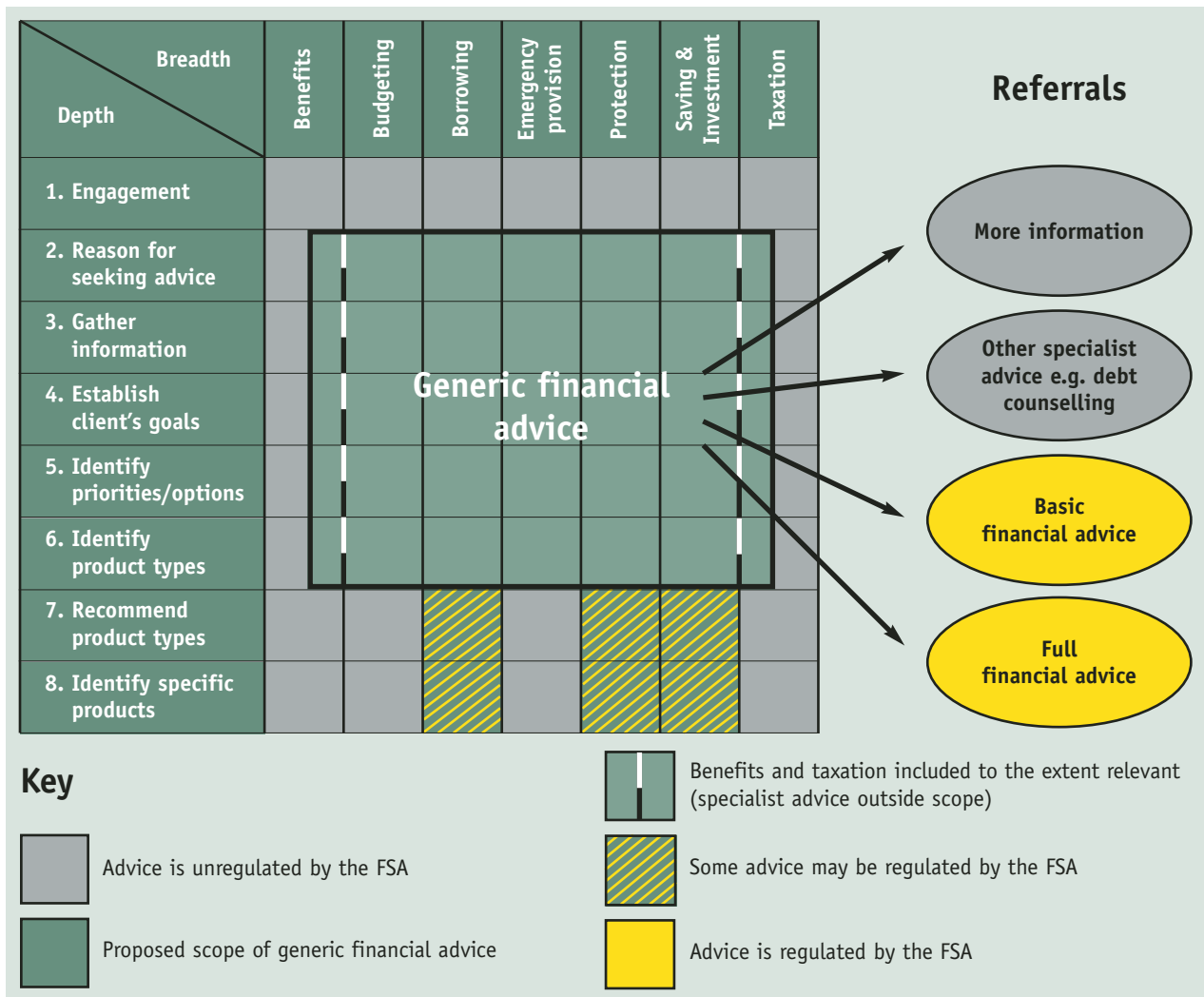
State benefits and taxation issues should also be addressed to the extent necessary to deal with the above needs and issues. But, for more specialised advice in these two areas, there are other expert resources available.

A particular generic financial advice service would not have to cover all of these areas, but it could. So a network of different generic financial advice services would provide cover across all these areas.

Depth

Within any particular subject area, a financial adviser might give advice of varying depth. The process of giving advice can be described in progressive steps, but not all are appropriate for generic advice:

1. engagement – explaining the importance of money matters and the need to take appropriate action;
2. establishing the reason the client has come to seek advice;
3. gathering relevant information from the client;
4. establishing the client’s current financial position, their aspirations and goals;
5. identifying priorities and options for the client to consider;
6. identifying, if appropriate, product types that might meet the client’s needs;
7. recommending a particular product type; and
8. identifying a specific product to buy, hold or sell.



We want to define generic financial advice as including steps 2-6. Step 1 has to be achieved for consumers to approach generic financial advice at all, but this task can be fulfilled by many parties, not only those providing generic advice.

In the investment field, step 7 risks moving advisers into regulated territory. At this point, recommendations are being made about asset allocation and portfolio balance. In other areas, it is less clear that a generic financial adviser would be moving into regulated territory. But in the interest of reducing uncertainty and keeping things simple, we propose that the boundary of generic financial advice should be drawn at the end of step 6 (i.e. before step 7).

We have tried to illustrate our thoughts about the breadth and depth of generic financial advice and the boundary with regulated advice in the above diagram.

We will test this proposition further as we continue the work. In particular, clarity about the scope will be a critical element in the work we will be doing to establish quality standards for the delivery of generic financial advice (described later in this document).

The proposed EU Markets in Financial Instruments Directive could also influence our proposals. This is because, depending on its final provisions, it might mean that some forms of generic financial advice will be required to be regulated. So, we have drawn the boundaries of our definition at a point which falls outside the scope of the proposed Directive as it is currently drafted.

How far should generic advice tools and services go beyond signposting the route to answers?

There was agreement that generic financial advice should stop short of specific product recommendations, but less agreement on exactly how far it should be able to go. Some felt that it should never give more than 'stock' answers to generic issues, while others thought it should be more personalised and result in 'suggestions'. Some thought this should go as far as suggesting an appropriate level of life cover, for example, or even suggesting the names of providers of 'safe haven' products. Others felt that this went too far.

Some respondents felt that the essence of generic financial advice should be about explaining choices or empowering consumers to make those choices.

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

The respondents to this question identified it as a difficult issue. They were generally agreed that generic financial advice should be fairly simple and focus on the key issues. But they also recognised the desirability of generic advisers being able to answer almost any question put to them. In other words, the ideal service would be simple and complete.

Some respondents felt that generic financial advice should be able to offer a general 'check-up', for example, but also help with specific single issues if that is what the consumer wants.



The risk of giving advice

Concern about liability is often quoted as one of the main reasons why generic financial advice services are not as widely available as they might be. There is nothing that can be done to remove this risk altogether, but it can be made more manageable.

One risk that we can address is that of generic financial advice providers slipping into the territory of regulated advice by mistake. A clear definition and boundaries for the set of services provided by quality assured generic financial advisers, together with our published perimeter guidance on regulated advice¹, will reduce the risk that such advisers will stray into regulated territory.

By working with providers to establish agreed standards for generic financial advice we can also reduce the more general risk of advisers giving inadequate or inappropriate advice. We should be able to reduce variations in the quality of the service and raise overall standards. If you are a provider and you work to the published standards, then the chances are that you will be better placed to defend against possible claims. And recording the data consumers provide and the advice given to them should reduce the scope for later misunderstandings, and so you may also face fewer claims for liability.

But the risks can never be removed entirely. All advisers – regulated and generic, in the financial services industry or in the not-for-profit sector – face liability risks and will continue to do so. That is why they take out professional indemnity insurance (PII). We hope that the development of standards and quality assurance schemes will be reflected in the terms of PII offered to generic financial advisers.

On 1 July 2005, the Government amended the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 to make it easier for employers to promote the take-up of their pension schemes by their employees. This change exempts employers which actively promote pension scheme membership from the need to be regulated, provided the employer contributes to the scheme and does not receive a direct financial benefit (such as commission) from promoting the take-up of pensions. This does not change the potential liability for unsuitable advice. But it paves the way for employers to explain to their employees how they would benefit from taking up the pension the employer is offering.

What liability might attach to any answers or recommendations given [as part of generic financial advice]?

Most respondents felt that there was no avoiding the issue of liability, though several suggested that sensible record-keeping and using only trained advisers could limit the extent of possible claims.

Employee benefit packages

These are financial advice services available to employees or union members.

For example:

Aegon Benefit Solutions offers a web-based, software application that gives all staff of participating employers instant access to financial information. It covers issues relating to work, home and family, retirement and investment.

www.benefitsolutions.co.uk

¹ See <http://fsahandbook.info/FSA/extra/Perg.pdf> at 2.7.15, 4.6 and 5.8.

The link to regulated advice

Generic financial advice will be defined in a way that means it can be offered on its own, completely distinct from any sales process. Indeed, for some people we expect this to be one of its most attractive features.

Authorised Financial Adviser

Regulated financial advice is, broadly, advice to investors on the merits of buying, selling and doing certain other things with particular specified investments. It is capable of going well beyond generic financial advice and offering a full advice service, either covering the whole market or limited to the products of one, or a selection of, financial companies.

It is either provided 'free' to clients (with the firm taking payment by commission if a sale is made) or provided as a fee-based service (with commission costs saved, benefiting the client).

Independent advisers must cover the whole market and offer clients the opportunity to pay by fee, though most offer a choice of commission or fee. Some advisers offer an online service.

For example:

You can find a local regulated financial adviser through IFA Promotion (www.unbiased.co.uk). In 2004, they dealt with 440,000 requests for details of local IFAs via their freephone or online searches. There are currently around 9,000 member firms.

Or you can locate an adviser with the Certified Financial Planner qualification through the Institute of Financial Planning (www.financialplanning.org.uk)

Advisers typically meet clients face to face and purely web-based advice is uncommon. But one example of online advice is Advice Online (www.adviceonline.co.uk).

But the sorts of material covered by generic financial advice will be very similar to the kind of advice currently offered by, for example, authorised financial advisers in the early stages of their client interviews. Some providers may therefore want to align their advice processes with the standards for generic financial advice so that they offer a two-stage advice process: generic financial advice, followed, if requested, by either Basic Advice or full regulated advice and the offer of a sale where appropriate.

Some consumers, too, may find it convenient to move on from generic financial advice to more detailed discussions, recommendations and, possibly, sales.

Basic Advice

Basic Advice is a simple, quick and low cost form of financial advice on a range of relatively simple investment products, taking a high-level view of medium and long-term savings goals. You are asked a series of questions about your finances, which will cover areas such as your income, expenditure and current savings.

Basic Advice helps you to assess whether you have any more urgent financial needs and can help you decide whether the product offered is suitable for you.

For example:

Legal & General offers 'Basic Advice' on a Stakeholder Medium Term Investment Plan designed to cater for the needs of the first time investor.

www.legalandgeneral.com/invest/sandler

The FSA sees a need to establish a clear distinction between generic financial advice and regulated advice. So we expect the voluntary quality assurance standards we set for generic financial advice to include undertakings for the handover from generic financial advice to any further advice or sales channels. This would ensure that there is a clear break in the process and the consumer understands that the terms and nature of the advice is about to change. It would also make sure the consumer is under no pressure to continue the session beyond generic financial advice.

We are thinking of including provision in the voluntary standard for a basic record of the generic financial advice session to be maintained. The adviser could then give the consumer a summary enabling them to take the basic data that had been recorded to any other provider of financial advice or products if they want more detailed advice or to make a purchase. If the generic financial advice process is to be followed by an immediate move into regulated advice or sales, the summary could be handed over to the consumer before that move is made. This would signal the end of the generic financial advice process and also form a useful record of the session.

An alternative or addition might be to impose a cooling-off period between the end of generic financial advice and the beginning of any other advice process. But this could only be effective when the same firm operating under the proposed voluntary standard for generic financial advice also gives regulated advice. So it would perversely discriminate against firms which had adopted the quality standard. Therefore, it is not an option we see as attractive

We have indicated here our current position on these issues, but it should not be regarded as fixed and debate continues within the Working Group. It would be most helpful to receive additional comments that would inform our thinking in this area.

Nothing in the current FSA regulatory regime prevents regulated advisers from relying on appropriately detailed facts about the consumer recently recorded in a session with a generic financial adviser. Such record of the facts would, in effect, be the consumer's own record which they were confirming as correct and up to date.

Equally, there is nothing in the current FSA regulatory regime that prevents a regulated adviser giving advice focused on one specific area of need if that is clearly agreed with and understood by the client. So, if a consumer, acting on generic financial advice, went to a regulated adviser to follow up one particular aspect of that advice, that is already provided for under the rules.

However, experience suggests that there is considerable caution among regulated advisers, so there may be some misunderstanding. They may think that this would be equivalent to enabling the regulated adviser to rely upon the advice given by the generic financial adviser. Or they may believe that providing focused advice in such a circumstance would entail taking on liability for the suitability of the generic financial advice too. Neither of these is the case: the regulated adviser would be relying on the client's preference to focus advice on an agreed priority, and the generic financial adviser would retain any liability for the suitability of the generic advice given.

To streamline the situation and help avoid consumers having to go through the same information again with a second adviser, the FSA would be prepared to consider introducing regulatory guidance. We are interested in views on whether additional guidance would help bring further clarity.

Advice from other professions

Alongside their main professional activities, chartered accountants and solicitors often provide personal financial advice on tax avoidance, trust and estate planning, usually on a fee basis (with the fee being set against any commission they receive).

Consulting actuaries are mainly concerned with larger company pension schemes, but some may give personal financial advice.

www.icaewfirms.co.uk

www.lawsociety.org.uk

www.actuaries.org.uk

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

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

There was general agreement that there should be a clear separation between generic financial advice and regulated advice and that generic financial advice should complement regulated advice rather than be a substitute for it. Some respondents made the comparison with paralegals or paramedics.

Some respondents suggested that we need to avoid consumers having to give the same information twice and suggested that regulated advisers should be able to rely on the information already provided to a generic adviser.

Many respondents said that training and/or accreditation would help ensure that the boundaries are respected.

Respondents varied in their views on the need for a strict separation of generic financial advice from the sales process. Some felt that the independence and impartiality of the advice could only be retained (or seen to be retained) if it were kept totally separate. Others thought that consumers would be left bewildered if the advice suggested they buy a product, but left them without a way to follow that advice.

But all were agreed that it was important to ensure a clear distinction between generic financial advice and any follow-up sales process.

One suggestion, which was repeated in various forms, was that the generic financial advice session should end with the adviser handing over a document summarising the advice. This was variously described as a piece of paper, a common format for storing the information, a portable fact find, a prescription, a reminder, a financial profile and an assessment (like an eye test).

There was also a clear view that consumers should not be left up in the air and that the advice should clearly signpost the way forward, possibly also including online tools to assess the different providers of financial products.

Setting standards

The proposal

Our proposal is to identify and define generic financial advice that could be offered to consumers to a consistent standard by a range of organisations. We believe this idea has wide support within both the financial services industry and not-for-profit advice agencies.

A number of respondents to the July 2004 paper said that the existence of a recognisable and consistent standard would create a virtuous circle: having the potential to stimulate demand (by improving consumer confidence in a trusted brand) and (because the demand would be more evident) stimulate supply of good quality generic financial advice.

Any organisation wishing to provide generic financial advice would be able to use our model, including the standards we develop – identifying themselves and their service as part of a wider network of generic financial advice providers.

Over time, and with appropriate branding and promotion, consumers would begin to recognise the concept of generic financial advice, appreciate how useful it can be, and use generic financial advice services on a regular and routine basis.

This is not a regulatory initiative on the part of the FSA. What we are proposing is a voluntary scheme applicable equally to regulated and unregulated advisers, and designed to ensure consistency in the supply of generic financial advice. It will only succeed if we work alongside the financial service and voluntary sectors to design a product that they will find attractive to accommodate into their existing and wider business practices and business model. The standard will have to deliver a service which meets the needs of consumers, particularly in terms of accessibility, cost, impartiality and utility.

Major financial institutions

Major financial institutions such as high street banks, building societies and insurance companies will usually offer financial advice free. Where they go on to make product recommendations, these will usually be limited to their own products or those of a limited range of companies whose products they retail.

For example:

HSBC Bank offers its customers an individual review. On a face to face basis or by telephone, the review provides customers with the opportunity to discuss their individual circumstances without the obligation to progress with any recommendations made.

Norwich Union provides a financial advice service, including over the telephone, to thousands of its customers each year.

What kind of standards will we develop?

To take this proposal forward, we are working with the Financial Services Skills Council (FSSC) to develop a set of quality assurance standards for generic financial advice.

We will also work with the Chartered Insurance Institute (CII) and others to ensure that processes are in place for training and, where appropriate, examination to meet the standards set down for generic financial advisers.

We expect the standards to define the boundaries of generic financial advice, establishing a set of core skills and competencies which generic financial advisers should have and fleshing out the diagram on page 7.

The standards would also seek to establish a clear distinction between the generic financial advice process and any subsequent regulated advice or sales process. They would include a requirement for basic record-keeping and the provision of a written record of the advice given during an advice session, as well as the information about the client upon which the advice was based.

Organisations that wish to give generic financial advice in line with the standard would need to take appropriate steps to ensure that they employ people with the right skills to give the advice. They must also have processes in place to ensure the standards continue to be met.

Accreditation – a recognisable ‘badge’ that is associated with meeting the standard is a related but separate issue. Some believe that it would be desirable for those complying with the standards to be subject to accreditation to ensure they are applying the standard. While this may sound sensible, it is not entirely self-evident that would be the best way forward. An accreditation arrangement would involve both initial and ongoing costs of inspection and monitoring which, for some organisations, may not bring commensurate business benefits. It is likely that established organisations would instead incorporate the standards within their current training schemes. So even though a ‘badge’ would be reserved to those with accreditation, an organisation could not be prevented from stating that it operates to the published national occupational standard if indeed they do. Nevertheless, the FSSC is piloting an accreditation scheme which could run alongside any of their occupations standards. We will need to give further consideration to these issues alongside the development of the standard.

The process

Although any resulting standards will be owned and maintained by the FSSC, the FSA will be making funds available to help develop the standards and will lead the development process. To help in the process, the FSSC is now establishing steering and working groups, which include representatives from a wide range of interested organisations including the financial services industry, the voluntary and consumer sectors and the legal sector.

The standards will be developed through a series of facilitated sessions and agreed by the FSSC steering group and working group before being made more widely available for discussion and consultation. Once developed, the FSSC will seek to get the standards adopted as National Occupational Standards.

Timetable

Our indicative timetable for developing the quality assurance standards for generic financial advice is as follows:

Agree detailed project plan. Mapping, where appropriate, to existing advice standards	June – July 2005 (done)
Develop competencies, performance criteria and knowledge base	August – September 2005
Wider consultation	October – December 2005
Review standards in light of consultation	December 2005 – January 2006
Launch standards	January 2006

Following the launch of the standards, current or new providers of generic financial advice would be free to develop the necessary training and oversight processes to pilot and implement the standards.



Engaging with consumers

What if nobody comes?

There is no point in developing standards for generic financial advice and encouraging organisations to make it more widely available if we do nothing to encourage consumers to use it.

If there was a huge demand for generic financial advice, the ‘market’ might look somewhat different and the gap in provision might be smaller. It will be important for us to understand what is putting consumers off and what might positively encourage them to engage with financial advice, and generic financial advice in particular. Gaining this understanding will be a particular focus for work in the next period.

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

Many respondents commented that generic financial advice would have to earn itself a reputation for independence, convenience and usefulness before it would take off.

But almost all said that it would also need a substantial promotional campaign, possibly based around getting messages to people at key life stages. Some commented on the need to link this in with a more general campaign to increase awareness of the financial capability strategy.

What works and what doesn't?

It is not enough to make generic financial advice free, to ensure that it is useful and to make clear that it is impartial. Many consumers will still need to be persuaded that spending an hour or two with an adviser is a better use of their time than apparently more interesting or immediate activities.

We commissioned a review of studies into the delivery of advice services in a range of contexts (financial and non-financial). The objective was to learn from the experience of others about what forms of advice delivery work best for what reasons. This work has helped inform our thinking about the kind of services that need to be delivered in the new generic financial advice services network and about how we might engage consumers with generic financial advice.

Debt advice services

Specific advice available to those with debt problems.

For example:

National Debtline is a national telephone helpline for people with debt problems in England, Scotland and Wales. Now part of the registered charity Money Advice Trust, it provides a free self-help advice and fact sheets to its callers.

www.nationaldebtline.co.uk

The main conclusions of the review were that no single delivery channel alone is likely to be effective in delivering generic financial advice. Face-to-face delivery is popular, but does not appeal to all. Telephone advice is popular both with advice providers (as it is cost-effective to deliver) and for many consumers is their medium of choice (as there is near universal access to a telephone and out of hours access is valued). There are still limitations to the reach of internet-based advice, but for some sectors of the population this is now the channel of choice – particularly among young people and some older people.

The review is being published on the FSA Financial Capability website

www.fsa.gov.uk/financial_capability

at the same time as this paper. But it is only a small part of the work that will need to be done to ensure that we know how to promote generic financial advice effectively.

Much of the responsibility for promoting generic financial advice services will rest with individual advice organisations. Many of them will have long and deep experience in promoting such services.

But it will also be an important part of the National Strategy for Financial Capability to promote generic financial advice. The Financial Capability Steering Group is leading this important work on promotion and branding.

Money advice in the context of more general advice

Generic financial advice (often debt-focused) is given at advice centres or on general advice websites.

For example:

Citizens Advice Bureaux (CAB) provide free, confidential and independent advice from over 3,200 locations including bureaux, GP surgeries, hospitals, colleges, prisons and courts. Advice is available face-to-face and by telephone on a range of issues, notably benefits, consumer and debt, housing, employment and legal issues. Of the top five problems the CAB dealt with in 2003/4, the second highest category was 'consumer and debt' (1,444,000 new problems).

Customer benefit schemes

Advice services offered by third parties to the customers or clients of a commercial organisation.

For example:

The CPP Group plc, a customer assistance business, offers a service called 'Financial Health' to the customers of any of its 300 business partners who pay to subscribe for it. The service includes a financial health telephone helpline with advisers trained by Money Advice Trust, a financial fitness plan, a website and, for those who need it, a financial rehabilitation programme.

www.cpp.co.uk

The Financial Healthcheck

This paper has, so far, concentrated on our proposals to stimulate the provision of generic financial advice by developing a framework for delivery. Another way to stimulate a market is to bring a product to it. That is why the FSA has created, in partnership with the BBC, an interactive web-based tool, known as the Financial Healthcheck. It provides entry-level generic financial advice, for use over the internet. It is designed primarily as a ‘do it yourself’ (DIY) tool, but can also be used by third parties, such as voluntary advice agencies.

Our work on mapping the existing provision of financial planning tools had highlighted the fact that although there is a vast range of information on personal finance available to consumers, much of it relates to specific needs (eg retirement planning) or specific products (eg pensions).

The few more general financial planning tools that did exist tended to be either aimed at the more experienced user or were designed primarily to draw attention to information about the products available from an individual provider.

There is relatively little information on personal financial planning in general and there are few tools to help the less financially experienced identify and understand their financial needs.

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

Most respondents agreed that it was sensible to develop a web-based diagnostic tool. Beyond that, the general feeling was that the more channels that were available, the better, but that it could get very (possibly prohibitively) expensive once person-to-person advice was included, particularly if it is face-to-face.

However, some respondents suggested that, regardless of the expense, the only effective way to deliver generic financial advice to most people is face-to-face.

Against this background, we thought a well-designed Healthcheck could provide an independent ‘entry level’ tool that could encourage and help those new to personal finance to take the first steps in generic financial advice by helping them to:

- identify and understand their financial needs;
- identify possible priorities and next steps; and
- identify other relevant sources of information and advice.

How it works

The Healthcheck uses basic, largely qualitative, information about the user's circumstances to suggest some broad areas of need and pointers for action. It also signposts other relevant tools and sources of information.

It may be that practical experience of the Healthcheck over time will show that there is a desire for something extra – going beyond the entry-level and providing more detailed, more personalised, advice. In this event, we may want to enhance the Healthcheck or develop further tools that build on this starting point.

Web-based healthcheck tools

These are interactive web-based tools that generally take input information about the user's circumstances, may provide a limited diagnosis and pointers to further sources of self-help and, if commercially provided, there will normally be sales links.

For example:

The Plan from the Pru (which had around 13,000 hits since January 2005) and the Tesco Financial Healthcheck are two examples of such tools.

www.pru.co.uk/plan

www.tescofinance.com

Launch and next steps

The FSA worked closely with the BBC to develop the Healthcheck and an initial version of the service was launched in June 2005 on both the FSA and BBC websites at: www.bbc.co.uk/healthcheck and: www.fsa.gov.uk/consumer/healthcheck.

Initial usage numbers on the BBC News website were particularly impressive. On the first day, 154,000 people started and 125,000 completed the financial healthcheck. This shows that it is possible to stimulate an appetite for a tool of this nature, particularly if offered in a convenient and high-profile environment. The high completion rate supports the decision to keep the tool short and simple to use.

We are continuing to analyse user information and feedback to enable the tool to be refined further, and the next stage will be to offer it on other platforms and possibly in other media.

Next steps

The intention behind the proposals in this paper is to extend the provision of generic financial advice and so help to fill the ‘advice gap’. We think this will make a significant contribution towards improving financial capability in the UK.

The biggest challenge is to fill the middle ground, making generic financial advice a service for the ‘mass market’. The proposals in this paper are intended to help achieve this. They are complemented, particularly in terms of stimulating consumer demand, by work being done under other priority workstreams of the National Strategy for Financial Capability. In particular, the workplace project is exploring the potential for delivery of various services through employers, including the provision of generic financial advice. And the workstream for young adults is exploring the value of generic financial advice to young people.

Despite all this, there are likely to remain parts of the market which will simply not be provided with any form of generic financial advice. This means we do not exclude the possibility that we might have to look to the creation of new services, in addition to developing current provision.

Timetable and plans

The Financial Healthcheck described on page 17 will be evaluated and fine-tuned as necessary. If the evaluation is positive, we will promote wider take-up on other platforms.

Our work for the remainder of this year will focus on the development of the quality assurance standards in line with the timetable on page 14, as well as on pursuing other pilot schemes to test the viability of other ideas. Specifically, we want to learn more about telephone advice and the best ways of achieving consumer engagement. This work needs to be joined with the wider engagement work for the strategy as a whole. We have already begun work on brand development across the Strategy for Financial Capability.

We expect to provide an update on our progress in the early part of next year, including any proposals for future work.



Keep in touch

We will be posting progress reports on the strategy and work of all the working groups on the FSA's website at www.fsa.gov.uk/financial_capability.

We welcome any comments you might have on the issues raised in this paper.

Contact us via the website or by email:

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