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Thoresen Review of Generic Financial Advice
Savings and Investment Team
HM Treasury
1 Horse Guards Road
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18 December, 2007

Dear Sirs,

I write in response to the invitation to comment in your October 2007 Interim Report. We have replied to the specific questions, and also, below, draw together certain broad themes.

1. Who we are

UK Shareholders Association (UKSA) exists to represent the interests of small private shareholders. As far as we can see we are the only organisation where all the activities are carried out by individual investors investing their own money. In this response we have aimed to represent the interests of individual savers and investors generally as well as those of our members. I am sorry that we did not give evidence at the first stage.

While we have no financial or other requirement for membership (apart from being prepared to pay the modest annual subscription) it is obvious that we basically represent those who have some money to invest.

2. The target market

The Interim Report defines a target market primarily in terms of vulnerability as measured by Jackie Wells's criteria. The report then proposes that resources be concentrated on those groups whose real need is for more money rather than for advice on what to do with what they have.

We do not question the need for a Generic Financial Advice (GFA) service that caters for these groups. However the report also gives the impression that the authors believe that those with savings are adequately catered for. We totally disagree with this.

We have just submitted our response to the FSA's Retail Distribution Review in which we make clear our dissatisfaction with the present financial advice system and the inadequacy of the remedies proposed in the RDR. We emphasise the need for an adequate GFA service before consumers meet the product salesmen.

The Interim Report recognises many of the problems that savers have in obtaining satisfactory financial advice for example the latter part of para 1.36, then in para 1.42 *"the connection between remuneration for advice and product sales"* and then para 2.9 *"low correlation between financial capability and income"*. The paragraphs in the block on page 41 explain why advice available from the industry is seen as a precursor to product sale.

However, other conclusions and comments appear to contradict this. For example para 1.39 says, *"The analysis has shown that the commercial financial sector effectively delivers forward planning advice."* At page 34 of the *Target Market Analysis* by Jackie Wells she quotes the comment by the Chartered Insurance Institute as saying *"Those earning over £30,000 are already well served by the financial advice community."* Her apparent acceptance of this patently untrue statement is indicated by the words under Infrequent Users on page 38 of your report saying *"Many of this group are capable of finding information and advice without the support of GFA."* In Mr Thoresen's Foreword he says *"…this is in no way a criticism of providers."* Paras 1.38 and 1.43 also give unsupported indications that the existing market functions satisfactorily.

In *'The market for advice*' below we give our analysis of the market inefficiencies that have prevented the development of an honest commercial market and corrupted the existing one. We hope that this, coupled with the uncertain tone of your own report, will persuade you to modify the high priority given to the "vulnerable" groups by the Interim Report. We do not deny their needs for advice but it is those with money to invest who are going to pay for the service through their taxes and indirectly from the contributions of the industry. It seems unreasonable that they should not have equal priority in access to the service.

Further, ignoring slightly-more-capable groups wastes a viral marketing opportunity that you rightly identify in para 2.35. People take financial advice first from friends, who they may perceive (often wrongly) to be knowledgeable. If that segment of friendly advice is not educated it is questionable whether a strategy of educating the less-knowledgeable will succeed.

The covering letter of our response to the RDR (copy enclosed) explains more fully why we see the need for such advice and the sort of advice that needs to be provided. We hope that the pilot studies now in progress include representative numbers of those in all the groups identified by Jackie Wells.

3. Costs and products

The report does a disservice to debate in perpetuating the confusion between investments and products, which is one of the mistakes that makes financial education harder than it should be. It is important that some of the key objectives and definitions are restated to ensure that ability to choose between financial products is not seen as a substitute for a grasp of basic investment principles. We give more detail in the Answers.

Perhaps because of this misconception, the report does not mention the need for education on the effect of costs. At the moment there is no competition on costs primarily because savers do not understand their impact (and, we suspect, neither do the politicians). Equally there is no incentive to consolidate the myriad funds in existence.

For example few funds now have total Expense Ratios (TERs) less than 1.5% coupled with initial charges around 5%. Charges at these levels over a 20-year period of investment reduce the accumulated fund by over 30%. Further, the TER does not cover all expenses; the costs inherent in portfolio turnover are additional. Even ethical funds are no different in this respect. They may be ethical in their choice of investments but certainly not in their treatment of their customers.

Since these charges pay the commissions drawn by IFAs there is no encouragement for them to explain their impact to consumers. Even *Which?* Magazine in its December issue suggested funds for saving for university fees with similar levels of charge. UKSA's own members might from their nature be expected to be more knowledgeable. Yet among those in our survey who expressed themselves as satisfied with their IFA there were several who had been put into funds charging at this level. For example one member who has been very active in the organisation expressed himself as "entirely satisfied". Yet two minutes research on the internet showed that the fund used had an initial charge of 5% and a TER of 1.69%

This level of ignorance and severe cost to investors is only likely to be countered by an informed and available GFA service. We see it as essential that this service guides customers towards simple direct assets and non-commission-paying contracts as alternatives to more expensive financial products.

4. The market for advice

For any fair and efficient market it is essential that participants and products are correctly identified. In our submission to the FSA on the Retail Distribution Review (RDR), we have strongly made the point that the word 'independent' must not be used where there is the *potential* for bias; and the words advice/adviser must not be used to describe any process that includes selling. It is indefensible that an activity that is in fact a sophisticated selling operation is not only allowed to describe itself as an unbiased provider of advice but also carries with it the implied endorsement of a supervisory body – the FSA. As important, and more relevant for this review, is that this situation has prevented the development of any significant commercial advice market for the less-affluent.

We welcome GFA. But it will not be effective for the provision of savings and investment advice unless other, easier, sources of false advice are removed. Further, for cost, and maybe branding, reasons, GFA needs to be limited in scope. An effective cradle-to-grave advice system needs a vibrant commercial advice market above the basic level. This will not develop unless the 'competing' false 'advice' market offered by IFAs as part of the selling process is proscribed. We therefore repeat our call for the renaming of IFAs.

5. Conclusion

The availability of suitable advice is critical. It is a necessary, but not sufficient, condition for the declared government policy of developing a savings environment that is light on regulation but in which individuals take more responsibility for their own affairs. It is the safeguard that is necessary in any market where sellers are more knowledgeable than buyers. That is why we strongly support the Thoresen initiative for an inclusive and impartial service.

Finally, in para E.16 the report asks for suggestions for a name for the service. We suggest 'Primary Financial Advice', currently proposed for yet another level of advice in a crowded field in the FSA's Retail Distribution Review, but unlikely to be implemented.

Our answers to the detail questions put in the Review are attached.

Yours faithfully,

Martin White
Chairman

Responses to the specific questions in the Thoresen Review Interim Report

Section 2

Q 1. The analysis of UK adults according to their financial vulnerability represents a good starting point to assess the likely GFA needs and the ways of engaging different groups of people. The output of the pilots will help build upon the hypotheses in this chapter. What further pieces of evidence, or data sources, could be used to enrich the Review's understanding of the different groups who would benefit from GFA?

We question the first sentence, at least if Jackie Wells's definition of vulnerability is retained. By using this approach the target for advice on managing money becomes those whose real need is for advice on how to obtain more money. Those who have hard-earned savings, or income that can be saved, are vulnerable to being sold products that extract a significant share of the savings in costs and charges. The present commercial sources of advice do not, in general, deal with this and this section of the population has a real need for GFA. If further evidence of this is needed it can be found in the various mystery shopping exercises that have been conducted and in the volume of high-charging unit trusts and managed funds that are sold.

To test the potential benefit from GFA by such individuals, suitable members of the pilot groups could be let loose on IFAs, and other sources of advice, e.g. banks and building societies and the results compared with what disinterested experts would regard as an optimum outcome.

Q 2. Have we correctly identified the outcomes that a successful GFA service should aim to deliver? (This overlaps with the request for views in para 2.29)

The list of three outcomes in 2.28 has a very important omission, which should come second: 'Understanding the basic principles of savings and investment, involving the choice between different assets on the basis of risk, return, cost and liquidity'. The effect of costs and charges is a key issue in this. Consumers need to understand the amount and effect of charges on their savings before considering products and services.

We would then agree with the spirit of what would become the third and fourth outcomes [basically: 3): learn more and 4): keep the learning up to date] but would phrase them differently. The wording used, together with the omission above, illustrate a misconception that occurs elsewhere in the report: that decisions about saving are simply a choice between products. This is fundamentally wrong; savings decisions are a choice between *assets.* 'Products' are assets wrapped and marketed by an industry for profit. If the product is the Mars bar, the assets are chocolate and toffee. We note that this misconception reflects that of the FSA, who selected 'Choosing products' as one of only three measures of financial capability in their baseline 2005 survey, and equated financial capability to the skills necessary to do so.

However, we are not convinced that it is realistic to expect a large majority to be prepared to make the investment of time and effort needed to keep their financial knowledge up-to-date. They do need to know where to turn for impartial help when they have an issue to be addressed.

Q 3. What sort of approach would be the most effective way of engaging consumers in GFA – both initially and in the longer term?

To some extent this will be a matter of trial and error, possibly using the pilot groups to see how what they think. It would seem desirable to introduce the service gradually at first area by area since there will be a great deal which can only be learned in practical situations.

Section 3

Q 1 Have we identified the appropriate parameters for GFA? What evidence exists to support a case for a “deeper” service?

We would just suggest adding one more parameter. As well as saying “GFA will not make recommendations to buy, surrender or change a specific product from a specific provider”, we would continue: “GFA will help individuals to make decisions between different types of asset and product by recognising differences in risk, prospective return, cost and liquidity”.

Q 2 What sort of accreditation and training would be the most effective way of ensuring accuracy, quality and consistency of GFA information and guidance?

This entirely depends on the form that GFA takes. Our own vision is for simple, uncomplicated advice widely disseminated through existing general educational and advice channels for which no special training would be needed (see Q 4 below). Control of the material itself could follow the state educational model.

Q 3 Views on the organisations which could play a role in the hybrid model, either on behalf of the main organisation under a contractual arrangement, or as a jointly labelled accredited partner?

In accord with the comments on the need for impartiality and the restoration of trust in 2.24 and 2.26., we believe it is essential that GFA is viewed as a community/educational service that happens to be in the subject of personal financial management. The types of organisation that fit with this model are schools and colleges, training companies, advice bureaux. It may be that National Savings would have a role, subject to research confirming that the brand was not tainted, in the public’s mind, by association with the rest of the industry.

Q 4 How could commercial providers benefit from delivering GFA in their premises? For example, does the delivery of GFA in a commercial setting improve the levels of motivation to take action and execute a plan?

GFA must be seen as clearly distinct from commercial providers (apart possibly professionals such as accountants and solicitors). We think it more helpful to envisage GFA as a set of tools for a basic self-education (to include interactive web-based and written material and access to the Citizens’ Advice Bureau or equivalent), together with a set of pointers to the next level.

Section 4

Q 1. Should a GFA service be delivered by a new organisation, and if so should that organisation be a public body?

That depends on the answer to 3. below

Q 2. Should a GFA service be delivered by an existing organisation – not necessarily a public body – with an established “brand” that is capable of being widened to encompass the objectives of a GFA service?

That depends on the answer to 3. below

Q 3. Which existing organisations should be considered candidates for scaling up capacity and expanding their brand to deliver the vision of GFA set out in this report?

The organization needs to have independence, competence and credibility. We believe that in its market positioning it should be seen as part of a consumer protection and education resource. This would both emphasise the purpose of financial education and imply that the consumer needs to take some responsibility for his own affairs. No existing organisation connected to the industry would have enough credibility. An organisation that combines perceptions of the Citizens Advice Bureau and Adult Education might be suitable. We do not know enough about these sectors to make a specific recommendation.

Section 5

1. Would a compulsory levy be the most appropriate way of raising the industry contribution to a GFA service; and if so, should it be a new mechanism or an existing one, such as the FSA levy?

We do not believe the industry should be levied, since it would give them apparent influence over the advice function. If that is not agreed, the levy should be a new mechanism clearly separate from the existing FSA levy, so that the FSA’s function of maintaining orderly financial markets is clearly delineated from the duty of consumer protection.

2. Would it be practical for compulsory contributions to be made partly in kind, whether by provision of staff, accommodation or other resources, or as a direct provider of part of the service?

No. Contributions in kind are just a way of disguising cost and influence (c.f. soft commissions) and would act against the essential distancing of the industry from GFA.

3. What should be the coverage of any industry levy? In particular, should it reflect the value of business in non-regulated products, such as some consumer credit companies, which are likely to generate significant calls on a GFA service?

No comment. The question just illustrates the minefield that any form of levy or hypothecation opens up.

4. Are there some firms that should be excluded from a compulsory contribution? In particular, should firms that:
– sell only non-regulated financial products; or
– operate on a very small scale or for whom credit is just an ancillary acvtivity; or
– have only peripheral contact with those who are most likely to benefit from GFA;
form part of the contribution base?

See 3. above