



Study on access to comprehensive financial guidance for consumers (FISMA/2015/071/D3/ST/OP)

Seminar on Financial Guidance
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Sebastien Clerc-Renaud (*iff*)
On behalf of the project team

Content and structure

- Research team, objectives, method
- Consumer need for financial guidance – extent and nature
- Definitions of guidance and national planning
- Current provision - providers and scope
- Business models and funding
- Promotion and consumer incentives
- Effectiveness and quality of services
- Regulation, quality assurance and access to redress
- Conclusions

The research team

- The European Savings Institute (OEE)
- Personal Finance Research Centre (PFRC)
- Institute for Financial Services e.V. (iff)
- National Institute for Family Finance Information (NIBUD)
- Individuals: Rosalyn Russel (RMIT University, Australia) and Tanja Jørgensen (Aarhus University, Denmark)

- Member States covered: UK, FR, DE, BE, DK, NL and Australia
- Research conducted in 2016 (January-July)



EUROPEAN COMMISSION
Directorate-General for Financial Stability, Financial Services and Capital Markets Union

RESOURCES AND COMMUNICATION
Financial resources and Internal Control



Reminder of the Study objectives

Two areas of analysis:

Area 1: Good practices of comprehensive financial guidance

Analyse the scope of the financial guidance

Who provides financial guidance

Sustainability of the service

Liability of providers

Self-regulation and oversight

Area 2: Consumer incentives

Assess how guidance may be promoted and which incentives can be successful

Guidance: Between information/education and financial advice/planning

Method: Desk research, literature review, online survey, interviews

Guidance: Extent and nature of need

- Indirect survey evidence:
 - Inability/unwillingness to pay for financial advice
 - Low levels of financial capability
 - Difficulties finding relevant and impartial information
- Direct evidence
 - Around 10% of population likely to use a FG service
 - Main areas: savings, pensions/retirement planning, mortgages, insurance, social security, taxation; but also budgeting and selecting products
- Demand needs to be stimulated

Consumer need for guidance – MS examples

UK:

- 25% / 32% / 20% of UK population would use a financial guidance service (HM Treasury / Pathfinder Money Guidance / Citizens Advice)
- A third would probably do so (HM Treasury)
- Main areas of need: budgeting, planning for the future and selecting appropriate products

The Netherlands:

- 70 % of respondents do not know where to go with financial problems (Nibud)
- 27% of consumers surveyed had difficulties finding relevant financial information that is good, trustworthy and independent

France:

- Indirect evidence of need: 40% of surveyed do not determine savings objective although only 25% do not care about savings

Current provision of Guidance (Provider Overview)

- A large number and wide range of organisations claim to be providing financial guidance
- Financial advisers in banks and insurance companies, not-for-profit and consumer bodies, governmental and other public bodies
- But many are providing either financial advice or information linked to selling financial products
- The number providing FG to our working definition is quite small
- And concentrated among the not-for profit and public/official sector bodies

Types of providers

- More widespread/extensive where commissions banned (AU, UK, NL)
- Wide variation in size and types of organisations
- Consumer organisations: High in UK and DE (due to network of local consumer associations); low in FR, BE, DK
- Regulator and the Government (AU, UK), public partnership (FR via L'union Retraite), national websites (FSMA, Penge-og Pensionspanelet (Money & Pensions Panel), Wijzer in Geldzaken (Money Wise)).
- Private sector financial advisers and planners (separate from sale) (all MS)
- Commercial websites (UK, DE - Moneysavingexpert.com, Finantztip)
- Notaries: FR

Providers of financial guidance

- UK: three large national services in the Money Advice Service and the Pension Advisory Service and Pension Wise
- NL: traditionally by banks but since the ban on commissions in 2013 with decreasing use. Non-regulated guidance is more and more pushed online-tools to minimize the costs of the service traditionally perceived as “free”.
- BE: Financial planners who are regulated by the national market authority (FSMA), the Wikifin-website (FSMA) and Test-Achats (a consumer organisation advising on investment products)
- DE: Fee-based advisers for specific financial areas but outside of bigger institutions, independent fee-based advisers offer an integral approach
- FR: Bankers as basically the only professional regarding personal finance questions; The pension information interview (public partnership), the Savings info service (from the market authority)
- Australia: Main provider is Money Smart through a website (Government), financial counselling (NGOs)

Providers of financial guidance (survey) (1)

Online survey:

- 41% Financial advisers or wealth managers
- 13% Not-for-profit organisations
- 12% Banks
- 7% Other financial service providers
- 3% Government bodies
- 2% Non-governmental public bodies
- 2% Commercial websites
- 1% Financial services regulators

Qu: Do you currently provide a financial guidance service that is promoted to consumers?	Yes
Germany	72
France	58
United Kingdom	18
Netherlands	24
Denmark	17
Australia	14
Belgium	3
Total	206
	90%

N=230 (7% = No; 3% = No, but we are considering offering such a service)

- Almost all financial advisers and banks (FR, DE, UK)
- Not-for-profit organisations (NL, AU, and UK)
- 71 % of respondents with financial guidance offering > 5 years
- Care in the interpretation of results – general and strict separation from product recommendation?

Scope of financial guidance (survey) (1)

Table 2. Which of the following best describes the financial guidance service you offer?

Country	A free-standing financial guidance service	An incidental service alongside regulated financial advice	An incidental service alongside selling financial products (*debt advice)	Other	Total
Germany	24	15	12	2	53
France	29	7	7	6	49
United Kingdom	11	1	0	3	15
Netherlands	12	2	1	5	20
Denmark	11	2	0	1	14
Australia	3	7	1*	5	16
Belgium	1	0	0	2	3
Total	91	34	21	24	170
	54%	20%	13%	14%	100%

Scope of financial guidance (survey) (2)

How is your service delivered?

Face-to-face personal service	44%
Telephone personal service	21%
Internet personal service	15%
Website	18%
App	2%

Assistance with product choice:

54% use own product comparison tables; 53% also propose comparison tables produced by others

Referrals to advisers: 37% direct users to colleagues; 29% direct users to other regulated IFAs who have no links to particular financial services provider

Main topics covered:

- Retirement planning is the most covered topic by face-to-face financial guidance services (88%), also the most covered topic via the internet and one of the main topics by telephone
- Day-to-day money management is the main offer through the telephone and the least offered as face-to-face service.
- Investment planning and saving is among the most covered topics through all channels

Nature of the service offered

- Half the providers are not exclusively offering guidance (also recommending and ongoing advice)
- Third of providers not actually providing comprehensive service (guidance on specific issues)
- Providers that assessed the options but did not recommend product or course of action were most likely to refer to price comparison tables (>50%)
- Simple, once-off advice on one issue (36%, mainly NL, UK); Ongoing advice (64%, mainly DE, FR)
- Those restricted to provision of information on options were more likely to provide simple one-off and to refer users to an IFA or licensed colleague for investment advice

Current provision of Guidance (I)

- Provision varies widely across countries
- Extent (UK most extensive > Denmark very little)
- Delivery channels: Face-to-face services most common, followed by telephone (DE)
- Subjects covered: Broad range of services – budgeting/money management => financial planning (but not all comprehensive e.g. some specialist providers (pensions – best coverage))
- Websites / availability of self-analysis tools: Widest range and interactive (AU, NL, UK)
- Reflects the regulation of financial advice, and
- National differences in the existing organisations

National planning of financial guidance services

- Although regulators and/or national governments are direct providers (incl. websites), limited role of planning provision (with the exception of AU, UK)
- No widely used concept in the EU and no common definition of financial guidance (nor common terminology e.g. DE, FR)
- Unclear definition hampers development - Formal definitions of financial advice but not FG (only AU and UK)
- UK: moved from term 'generic financial advice', 'money guidance', to 'money advice' to 'financial guidance' (confusion)
- Importance of defining the boundary between financial guidance and investment advice

Definitions

Example of Australia (ASIC, 2012): term for tailored financial guidance is 'factual information' as opposed to general advice and personal advice

"Factual information is objectively ascertainable information, the truth or accuracy of which cannot reasonably be questioned. Good quality factual information can often be useful for clients wishing to better understand the financial products or strategies available to them... You can provide factual information to a client even if you have personal information about the client and use that information to determine what factual information to provide."

Limited consumer willingness to pay

- 70% not willing to spend more than €10/h of those interested in using guidance (53% unwilling to spend >€25/h and 39% >€10/h (FR); 50% unwilling to pay (AU – average €193 per year); 66% willing to pay €50/h (DE, but only 2% >€100/h); 42% of financially engaged willing to pay €50-€250/h (UK).
- Factors for unwillingness: affordability, amount of money involved, belief that services should be free of charge.
- Most consumers are not aware of the existence and extent of commissions they pay and the impact on the return.
- Low willingness => so most services are offered free of charge
- Exception: DE (typically €100/h f2f; €27/15mins per telephone; €25 by email/letter);

Funding and business models

- Little public information about costs: UK exception: from €100 to €650 per enquiry; MAS: €2.5 per website visit; €144 per telephone enquiry, €84 per face-to-face enquiry (Farnish 2015); UK Pension Wise service: €649 per session and €0.41 per website visit (Thurley 2016); UK Pensions Advisory Service €36 per attendee via workplace visit (Hyde et al 2010).
- Funded from taxation (local and national), by financial services providers (FR, UK) and through own fund-raising (UK via membership)
- Lack of sustainability: Reliance on external funding
- Staff are salaried (or are volunteers)

Promotion and consumer incentives

Survey responses to ways of raising consumer awareness:

- 62% promote financial guidance services through their own website
- 37% through social media
- 35% through leaflets or printed media
- 16% through mass media advertisements

Further findings:

- 40% are promoted by other organisations
- 55% say that word of mouth as most successful method
- Little success via social media and leaflets making it difficult for newly-established services
- Little evidence in the existing literature on the effectiveness of different methods of promotion, and few innovative ways identified except initial free 'taster session' (DE)

Effectiveness and quality of services

- Too little assessment made of services
- User satisfaction measurements show 60% (UK, AU) or higher if likelihood of reuse of service asked
- Only UK has measured effect on outcomes (Kempson and Collard 2010, Macmillan Cancer Support 2012, Hyde et al 2010) e.g. Money Guidance users improved more than the comparison group in face-to-face usage while other channels had no significant effect; money guides stayed too far from the boundary with investment advice to the detriment of the user

Regulation, quality assurance and access to redress

- Financial guidance is generally an unregulated activity (except UK Pension Wise)
- Lack of national skills and competency standards specific to FG
- Self regulation and/or quality control is undertaken by individual providers/networks
- ADR schemes generally don't cover FG

Conclusions

- There is undoubtedly a need for FG, especially as financial advice becomes more tightly regulated
- Difficult to have a blue print that would be appropriate to all MS
- Need to build on existing organisations
- Need coverage of a broad range of topics
- Services should be free to users
- Need for a national body to encourage development of services and provide oversight
- Skills training and accreditation not harmonized, unlevel regulation, self-regulation and quality control, and lack of clarity in mechanisms for redress /profess. indemnity insurance

Thank you for your attention!

Study on access to comprehensive financial guidance for consumers (OEE, iff et al, November 2016): http://ec.europa.eu/finance/finservices-retail/docs/fsug/papers/1611-study-financial-guidance_en.pdf

FSUG paper and recommendations on financial guidance (January 2017): http://ec.europa.eu/finance/finservices-retail/docs/fsug/papers/1611-fsug-financial-guidance_en.pdf

FSUG Studies: http://ec.europa.eu/finance/finservices-retail/fsug/papers/index_en.htm

Contact: Sebastien Clerc-Renaud (iff): sebastien.clerc@iff-hamburg.de (+49 4030969124)