

Financial capability and the provision of advice

Summary

Consumers need access to meaningful and affordable financial advice. At present, the high net worth and mass affluent are well served by Independent Financial Advisers (IFAs) while other sectors of the market place – like the mid market and those with lower than average savings are not well catered for.

Over recent years many attempts have been made to improve financial capability although these have often been targeted at the lower to average wage earners and tend to be focused on crisis situations (like short term and excessive debt).

We want to help more consumers get access to meaningful financial advice and we welcome Government initiatives to make this happen. However we believe that a generic financial advice service will be largely ineffective unless there is a personalised recommendation and an element of persuasion to ensure that consumers actually take meaningful steps to improve their financial outlook.

AXA has been involved in the development of academic research in this area and we are pleased that the recently created Consumer Financial Education Body (CFEB) is now recognising the role that behavioural science may have alongside traditional policy initiatives in helping to 'nudge' people into a certain course of action.

Other background

The CFEB has a statutory duty to enhance the public's understanding and knowledge of financial services and to enable them to manage their own money matters. The recently published (July 2010) results of the Money Guidance/Pathfinder project in the north west and north east of England confirm that Money Guidance met one of its aims by reaching people who are potentially vulnerable to the consequences of poor financial decision making.

Nevertheless, while acknowledging that Money Guidance was set up to provide information and guidance, there is an acknowledgement that during the pilot stage the service attracted a disproportionate number of people with enquiries relating to budgeting, credit and borrowing. Of equal concern is the fact that seven in ten people did not go on to make contact with the organisation they were referred to.

The new coalition Government has announced plans to launch the UK's first free national advice service – to be arranged by the CFEB – with the aim of changing people's behaviour to encourage them to take more responsibility for their finances. Such a scheme will be delivered by an additional levy on the financial services industry. Inasmuch as this new service will deliver financially better educated consumers who are more able to arrange products and services that make them less reliant on the state, it is logical for the financial services industry to fund this new national service. However, for this to be viable for both the consumer and the industry, this new facility needs to reach out and deliver solutions to people that go beyond a simple debt management and budgeting service.