

Green Deal: independent advice

Consumers need to trust in the advice they are given on the Green Deal (GD). The proposed GD framework provides for:

- **A remote advice service:** phone and web service to signpost consumers to providers and services (including complaint-handling services)
- **Standardised assessment:** an upgraded Energy Performance Certificate (EPC), with occupancy assessment, to inform the consumer on what measures would help them cut their energy bill while improving comfort
- **Quote:** we expect to see in the consultation the potential for a standard, comparable quote format to enable consumers to compare the costs and savings from different providers' offers

The standardised assessment may be undertaken by a GD assessor (GDA) working for a GD provider (GDP). In such cases, the GDA must disclose their commercial relationship. We want GDPs to provide end-to-end services so that consumers are not lost on the consumer journey (as they are now with EPCs) but there will also be a demand for, and supply of, independent advice.

We draw a distinction in this document between the assessment and advice. As it stands, the advice process is limited to advice on measures, rather than providers. We are calling this the assessment, as it assesses what is needed in the house in generic terms. The broader advice process should be designed in a way that facilitates consumers to shop around and compare prices. This will ensure the competitive nature of GD provision. Consumers will also need advice to understand the pros and cons of the GD financial package as well as energy services.

Consumer Focus thinks that independent advice should be codified in order to ensure that consumers are getting what they expect from independent advice. The Code of Practice is intended to cover rules relating to marketing of the GD, and to prevent misleading or unfair practices. We expect 'independent advice' services to emerge so a formal approach should encourage GDPs to engage with independent advisers, limiting the gap between advice and delivery for consumers who want to choose this service.

This briefing looks at how provision of advice in the GD can learn from the experience of the financial advice sector, particularly in managing tied and independent advice. By 'advice' here, we mean the process that provides consumers with costed recommendations for energy services. In GD terms this means the adviser:

- undertakes the standardised, impartial GD assessment
- seeks quotes from three or more GDPs
- helps consumers understand the different offers
- helps consumers understand the different options for financing the work

The cost of this service would be up to the market. We foresee a range of services from remote services (complementing the on-site EPC) through to the Green Homes Concierge type of model with ongoing project management. Independent advice may also be offered alongside design services.

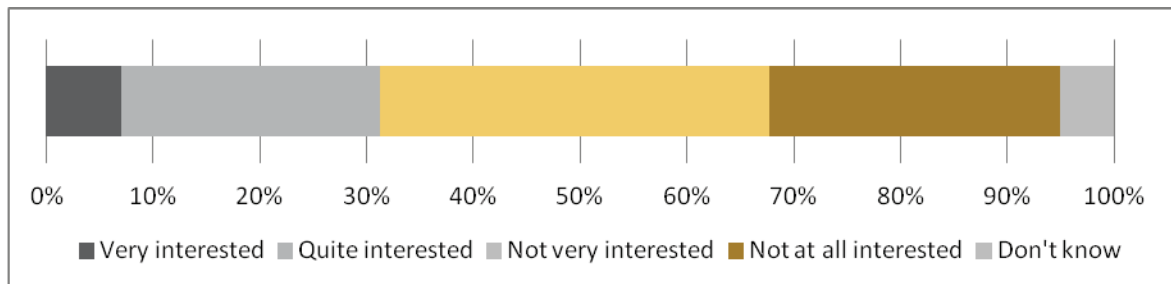
Consumer attitudes to energy advice

In October 2011 Consumer Focus asked 1,127 British energy billpayers about their attitudes to energy advice.

Q.1 Consumers can get an energy advice provider. How interested would you be in this type of advice? (definition of energy advice provider given)

Base: All adults responsible for energy bills (weighted base: 1,127)

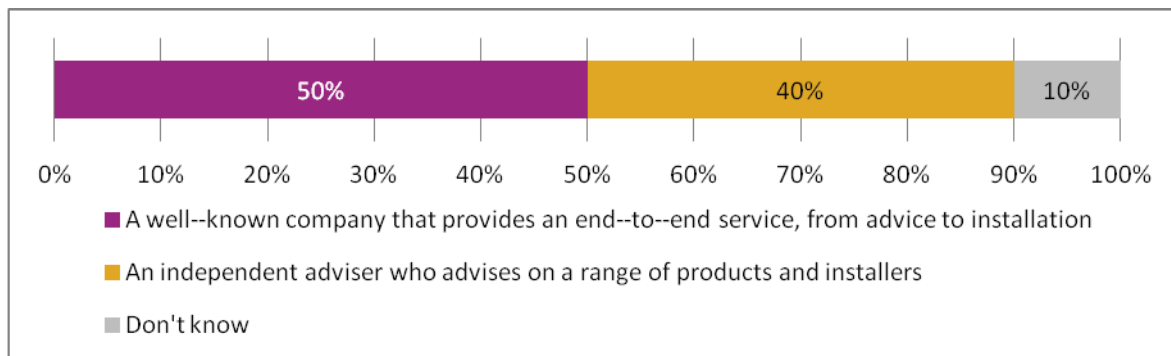
Only 32 per cent would be interested in energy advice.



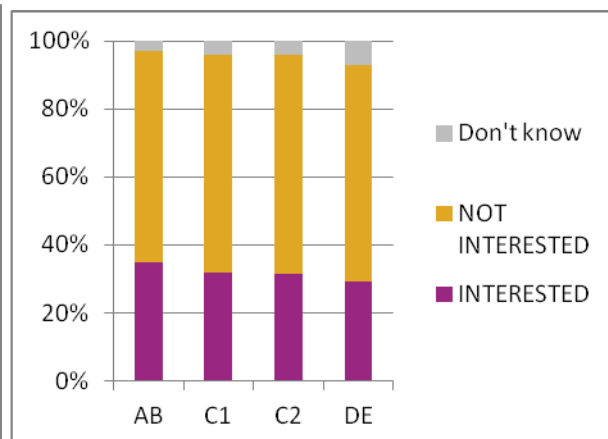
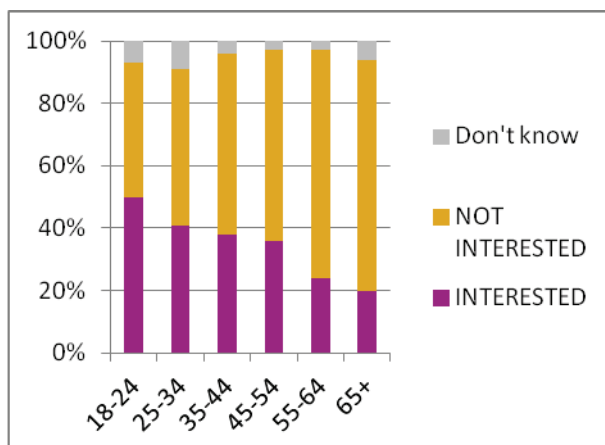
Q.2 When choosing an energy advice provider, which would you prefer?

Base: All interested in choosing an energy advice provider (weighted base 355)

The largest number of respondents would choose advice from a well-known company, but there is also strong support for independent advice. This shows that a mix of options is needed to attract different consumers.



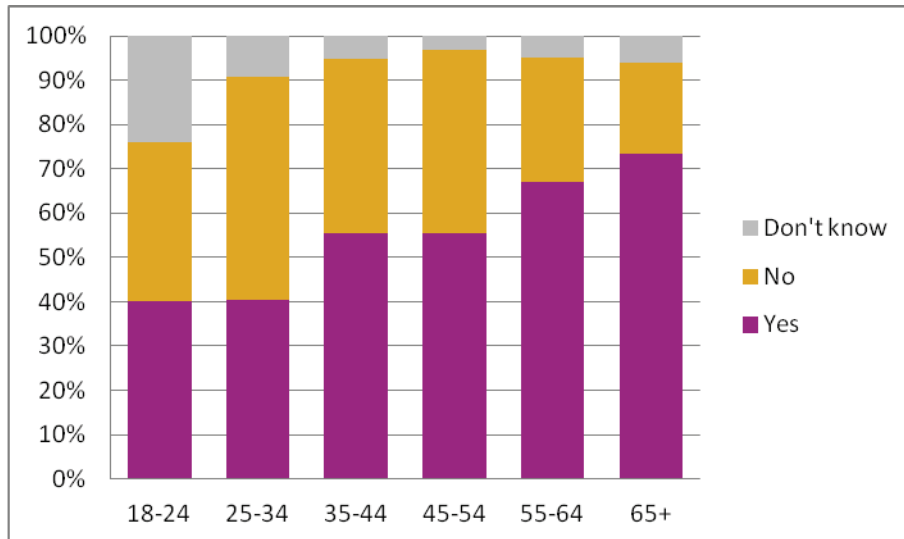
Younger consumers are significantly more likely to be interested in advice – older consumers may feel they don't need advice (see Q3).



Q.3 Do you think your home is as energy efficient as it could be?

Base: All adults responsible for energy bills (weighted base: 1,127)

59 per cent consider their home to be as energy efficiency as it could be and older respondents are more likely to consider their homes energy efficient.

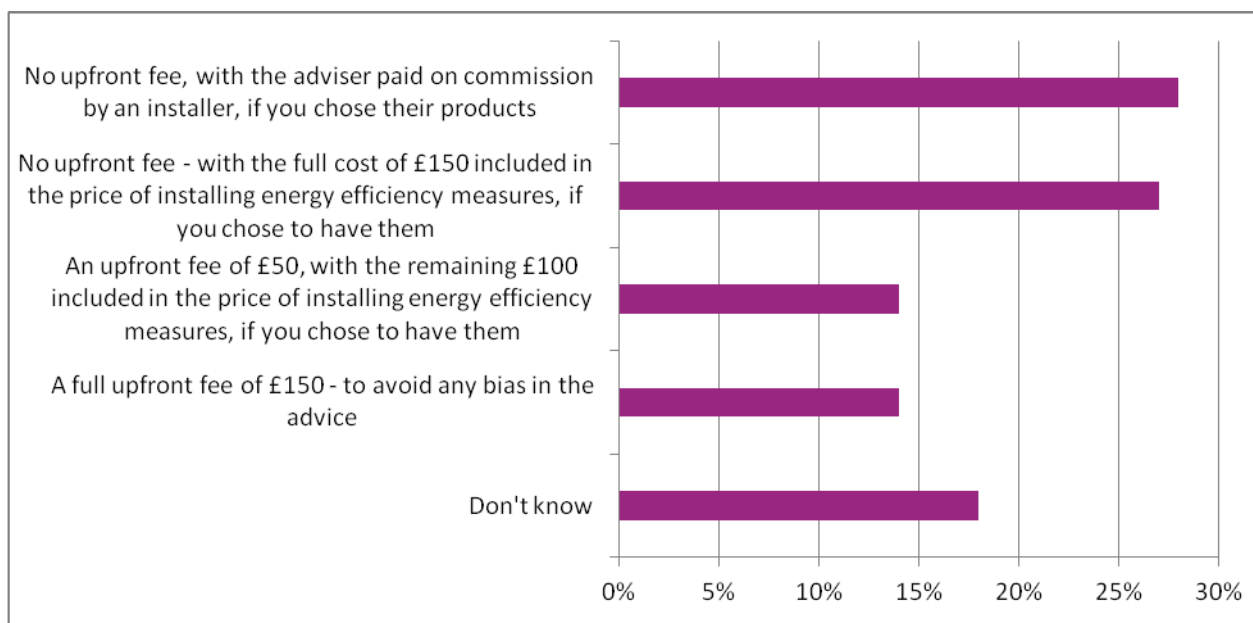


We then asked consumers about how they would want to pay for energy advice, in as simple language as possible.

Q.4 Assuming the assessment cost of an energy advice provider was £150, which payment method would you prefer when choosing an energy advice provider?

Base: All interested in choosing an energy advice provider (weighted base: 355)

Most consumers (55 per cent) would prefer to pay no upfront fee for advice. While a 28 per cent would be happy to pay some form of fee, of which half would pay the full £150 to avoid bias.

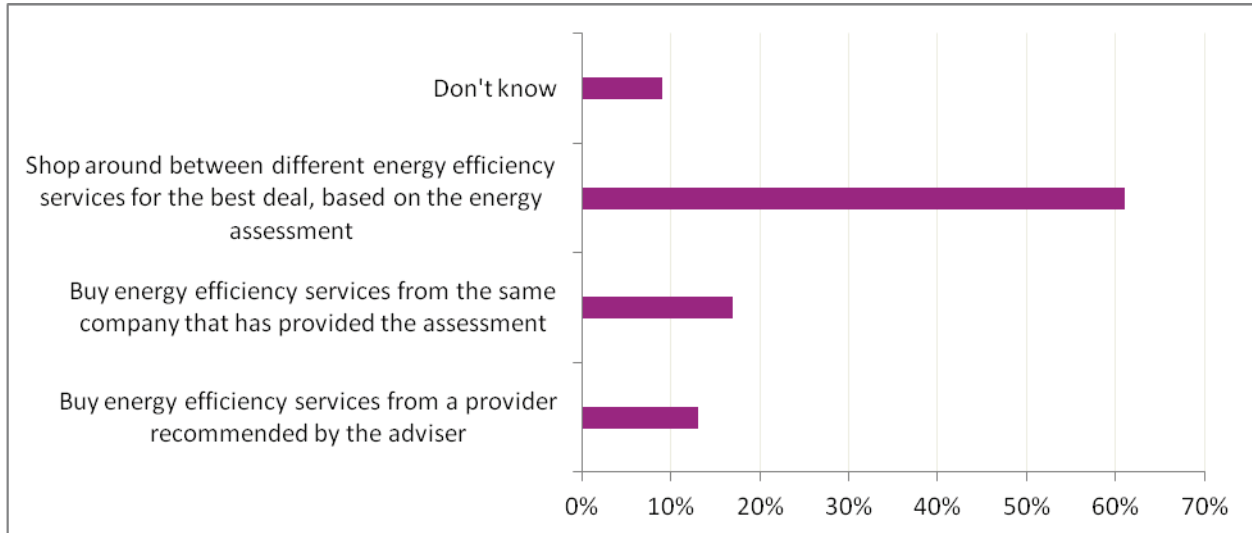


Again, this shows that there could be demand for a range of models, and that there is acceptance from consumers of paying for advice through commission rather than paying upfront for fully independent advice. Consumers then say that they will shop around for the best deal.

Q.5 If the energy assessment you have recommends certain energy efficiency measures, which would you prefer to do?

Base: All interested in choosing an energy advice provider (weighted base: 355)

A large majority of respondents say they would rather shop around than buy from provider tied or recommended by their assessor.



Whether this happens in practice is down to the ease of comparing GD offers, and the perceived hassle of collecting them. At present there is no support from Government for facilitating this shopping around through a standard presentation of GD offers.

Comparison to financial services advice

There are parallels between advice for the GD and advice for financial services, notably the potential for both independent advice and tied (or restricted) advice. As well as similarities, differences between financial services and GD advice, of course, exist: for example an energy assessment is a prerequisite for GD measures whereas investors do not need financial advice to invest. Consumer Focus thinks that this prerequisite makes it more, rather than less, important for Government and the regulators to define how the independence of advice is marketed.

The Financial Services Authority (FSA) has recently carried out the Retail Distribution Review, a review of personal financial advice, aiming to improve the standards of advice, including tackling remuneration bias. During the review the FSA carried out studies on consumer attitudes towards advice; the key points which can inform the provision of advice in the GD are outlined below.

2011 FSA consumer research on financial advice¹

- Trust can be more important than price for selecting an adviser (p. 108) and unbiased advice was seen as the top driver for consumers to seeking advice:

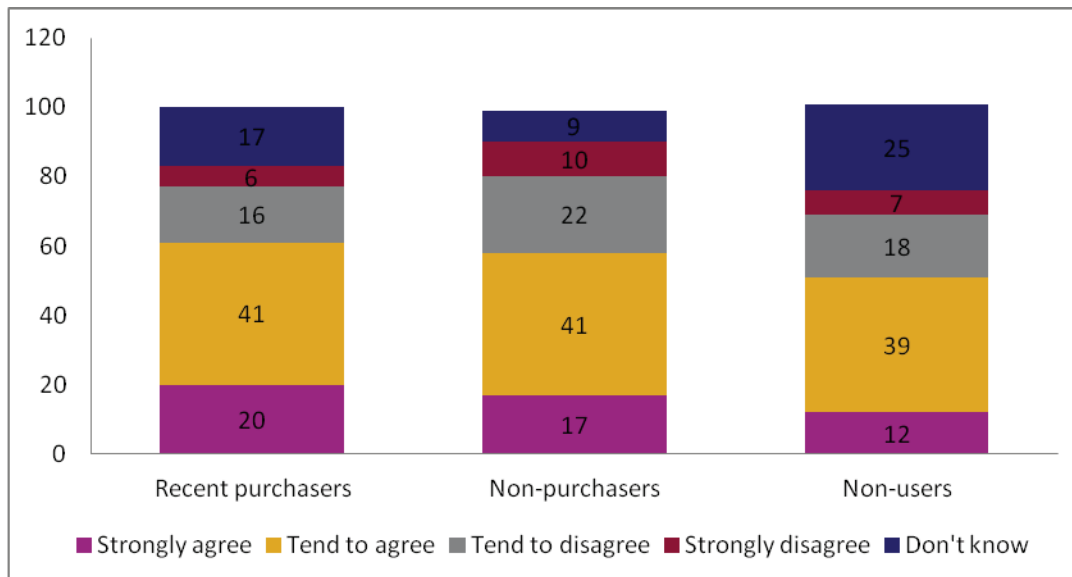
What different measures would encourage you to seek advice? Knowing... (in order of ranking):

1. ...that advice received would be completely unbiased
2. ...that the adviser could give you advice about all the products on the market
3. ...that the adviser had a professional qualification
4. ...in advance what adviser's services would cost

- Whether customers could recall receiving disclosure of market coverage (written or verbal) depended on adviser type, with less independent advisers less likely to disclose. (*Single-tied 50 per cent; Multi-tied 70 per cent; IFA (independent financial advisers)/other whole of market 81 per cent*) (p. 99)
- Advice was considered impartial by 88per cent of purchasers and 81 per cent non-purchasers. Figures much higher for IFAs than tied advice and for advice where disclosure was provided. (p. 97).
- Looking at perceptions about the funding advice, tied-advice tended to be viewed as free, whereas it was considered IFAs were more likely to be paid on commission. Fee paying services were more likely to be viewed as impartial (see figure below)
- Around 40 per cent 'incorrectly' identified adviser status (IFA vs. other) with groups with higher education and income levels better able to identify the 'correct' answer (p. 104).

Q. You get more impartial advice if you pay by a fee, rather than the adviser receiving commission': recent purchasers, non purchasers and non-users of financial advice

FSA Consumer research. Base: All RP (5,024), All NP (667), All NU (1,105)



¹ FSA, May 2011, *Consumer purchasing and outcomes survey 2010*, <http://bit.ly/ua2bZJ>

2009 FSA consumer research on advice labelling²

- Preference: Consumers had an existing awareness of the distinction between independent and non-independent financial advice and they favoured independent advice
- Acceptability: The report covered different forms of disclosure. eg negative ('does not cover the whole market') vs. positive ('covers a limited range of funds') and consumers preferred positive to negative disclosure (p. 39)
- Clarity: However, the study showed more positive labels for tied advice (such as 'sales advice' or 'affiliated advice') were seen as more vague, while 'non-independent' was viewed as most clear

FSA Retail Distribution Review outcome³

The changes will come into effect end 2012 and will mean that:

- Advisers tell consumers how much their services cost and agree with them how much they will pay
- Advisers will have to be either totally independent, providing advice from across the market, or 'restricted', in which case they will need to explain the nature of the restriction
- Advisers who offer independent advice must consider all relevant options for the consumer and do so free from any restrictions (such as working with only a select group of product providers) or bias (such as being paid by commission). This makes sure that the advice offered is truly independent and, if it is not, the adviser must clearly explain why not
- Accreditation to ensure advisers are competent, trained professionals who subscribe to a code of ethics ensuring they act with integrity and treat their customers fairly

Problems and lessons for GD policy

- A clearer distinction is needed between energy efficiency assessment (which is impartial and produces the EPC+) and energy efficiency advice, which provides advice on specific, costed, energy efficiency measures (and associated financial packages) and may be either independent or restricted
- Consumers are most likely to choose advice services that have no upfront cost, rather than pay upfront for independent advice with no bias. This is a cause for concern if there is no way for independent advisers to recoup their costs, particularly if early adopters feel they are given biased advice by restricted advisers
- Consumers may take up independent advice, but it is likely that GDPs will not readily accept paying for assessments that they have not undertaken in-house. This is particularly likely where they will want to undertake their own assessment in order to quote for more structural or more expensive measures, as they will be liable for the performance and financing of the measures
- There is a need for clear labelling of advice either as independent or restricted. In the latter case the adviser should make clear disclosure, following a defined format, of how their advice is restricted and this should be at the point of setting the appointment. Receipt of commission is a form of restriction that should be declared

² FSA, 2009, *Describing advice services and adviser charging*, <http://bit.ly/sE2PJ7>

³ FSA website, June 2011, <http://bit.ly/vxAEy7>

- Energy advisers who offer an independent service may well need to ‘add value’ in order to attract clients. As we are concerned about consumers falling between gaps in the process, we would like anyone marketing themselves as an independent GDA to provide clients with offers from at least three GDPs
- The challenge is then payment for advice. In the financial services market, independent advice must be free from any remuneration bias. We think this should be the same in energy efficiency advice:
 - There will be a range of market offers, and putting a price or too many rules on these may restrict them from innovation. The rules need to be kept simple so they are easy to enforce and easy for consumers to understand
 - Commercial relationships (ie commission) cannot be forced on GDPs
 - We do not want consumers who have sought out independent advice to get advice that is biased by which GDPs will engage with the process
- It appears the barrier of upfront cost will limit the market for independent advice. To overcome this the Government and/or market participants need to develop a mechanism to recoup costs from the GDPs if recommendations are taken up by consumers. This would need to act across the market so that independent advice can deliver its particular benefit: advice that is not restricted by commercial partnerships