

**Sergeant Review *of*
Simple Financial Products:
Final report**

March 2013

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Foreword

In November 2011 the former Financial Secretary to the Treasury, Mark Hoban, asked Carol Sergeant to Chair an independent Steering Group to develop a suite of simple, transparent and easy to understand financial products. Over the last 15 months, over 50 organisations have worked together and contributed to the development of the recommendations in this final report of the Sergeant Review of Simple Financial Products. I am impressed with the way that such a diverse group of organisations have risen to the challenge. This report represents a milestone towards really helping consumers engage with the financial services market in a way that benefits their long term interests.

If we are to rebuild trust in financial services, people need to be able to manage and plan their everyday finances with confidence and ease. When product choice is complex and a lack of transparency makes it difficult for consumers to compare products, competition and consumer engagement are affected. Essential retail financial products need to be available in a form that is simple, transparent and easy to understand.

This report reflects the commitment of the financial services industry, consumer groups and Government to work together to develop a suite of simple financial products. It is one of a series of reforms aimed at helping more consumers save, invest and plan for the future, complementing the free, impartial information and advice provided by the Money Advice Service and strengthened consumer protection provided by the Financial Conduct Authority.

Carol Sergeant and all the organisations that have been involved have worked hard to deliver this report, finding pragmatic solutions to a range of issues that have previously prevented simple products getting sustainably off the drawing board. I would like to thank Carol in particular for the considerable time and commitment she has given to this work; her personal leadership has been central to the success of this initiative to date.

The big challenge now is to ensure that the work that has gone into the Sergeant Review is transformed into tangible changes for consumers; this will require the ongoing commitment of all participants, particularly industry.

I look forward to seeing real outcomes from this report, and have agreed to review progress with the industry and consumer groups in 12 months time.



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1 Executive summary

Background

- 1.1** Following earlier consultations on Simple Financial Products initiated by HM Treasury in 2010-11, the Government invited me to set up an Independent Steering Group to devise a suite of Simple Financial Products to help consumers navigate the financial marketplace. The Steering Group, its Working Groups and the many other people who have contributed, has included a very wide range of interested and expert people from consumer bodies, the financial services industry, charities, data and research bodies and consultancies. The work has also benefitted from senior observers from the Financial Services Authority and HM Treasury. I am grateful to all of these people who have given their support and commitment so generously. This Report sets out the Steering Group's final recommendations and next steps.
- 1.2** The Simple Financial Products initiative is one of three key elements in the Government's strategy to put the consumer's interests at the centre of the financial system and to empower them to drive effective competition. The Money Advice Service (MAS) has been established to increase both the awareness and capability of consumers to engage with financial services through the provision of free and impartial financial advice, while the Financial Conduct Authority (FCA) will play a specific role in enhancing confidence in the financial system by ensuring robust, fair and proportionate consumer protection and effective competition. Complementing these efforts is the role of the financial services industry in providing simple, transparent products, specifically through the development of a suite of easy to understand and easy to compare products that meet basic needs and "do what they say on the tin". These three elements combined aim to encourage more consumers to make financial decisions with confidence and purchase products that meet their needs.
- 1.3** At the heart of the Simple Financial Products initiative is a basic premise – that when consumers arrive at the financial services marketplace, there should be simple processes and products available that will allow them to make a straightforward purchasing decision. Achieving this will have wide ranging benefits. Simplicity helps to build consumer trust and engagement, and encourages them to compare products and shop around. This is beneficial for individuals, for the UK economy and for society as a whole.
- 1.4** We recognise that in the current economic environment there are pressures on incomes, and in some cases high debt levels that can make it difficult for people to save and buy insurance protection. The currently low levels of return available on savings products can also be a deterrent. However, this Report on Simple Financial Products is intended to contribute to a long term solution to what are longer term issues that pre-date the current economic climate and interest rate environment.

- 1.5** Responses to the initial Government consultation recommended the focus should be on simple savings and insurance protection products. The Terms of Reference for the Steering Group said that these products should:
- help consumers benchmark and compare other products on the market;
 - be understandable and accessible to the mass market;
 - not be tailored to meet individual needs, but provide consumers with confidence that a Simple Financial Product will meet their basic needs and offer them a fair deal; and
 - be a viable commercial proposition for providers.
- 1.6** An Interim Report for consultation was published in July 2012. The Steering Group has used the findings from this report, responses to the consultation, as well as insights from new consumer research (described in Annex A) to develop its final recommendations.¹
- 1.7** The lack of engagement with financial products and services is part of a wider and deeper issue about a lack of financial awareness and the necessary skills, confidence and experience in financial planning that affects some in our society.
- 1.8** There are several reasons for this:
- the challenge of making good choices in what seems to many to be an overwhelmingly complicated marketplace with a very wide range of products which are complex and difficult to understand;
 - too little awareness of the benefits of managing personal finances effectively, and the downsides of doing nothing or not enough;
 - lack of financial capability and self-confidence to deal with financial matters; and
 - mis-trust of the financial services industry.
- 1.9** The initiative identified a number of issues around the complexities of choice, language and products that consumers face:

¹ The Interim Report, the full set of consultation responses and all related material can be found at: www.hm-treasury.gov.uk/fin_consumer_simple_products.htm

- there is such a wide range of products available that even where there are straightforward products on offer, it is hard for consumers to identify them. Studies in behavioural economics show that too much choice is confusing and overwhelming, resulting in poor decisions or a decision not to engage at all. **Simple Financial Products need to be clearly identifiable with an easily recognisable badge.**
- the language used is often inconsistent and confusing. Descriptions of products and terms and conditions are typically lengthy, sometimes very technical and unnecessarily complicated. Even the names of some products can lead to confusion and misunderstanding, which can damage consumers' trust if they later find that the products do not meet their needs. **The language in product literature needs to be significantly simplified and standardised.**
- some products are genuinely complicated. In an effort to cater for every possible situation, products can offer a bewildering array of options, conditions or exceptions. Even relatively straightforward products with introductory offers require actions and choices at the end of the introductory period, and failure to act can put people at a big disadvantage. **Complicated products have a role to play, but there should also be a suite of Simple Financial Products that are low maintenance and designed to meet essential basic needs and no more.**

1.10 Simple Financial Products should be easy to understand, easy to compare, easy to buy, easy to manage, and provide a fair deal for customers – there should be no risk of surprises. In order for them to be both commercially viable and affordable to consumers, they need to be designed as “non-advice” products. In other words, products that can be safely bought on the basis of generic advice, such as from the Money Advice Service, rather than as part of an advised sale process (although there is nothing to prevent them being sold as part of an advised sale process, if this proves to be commercially viable).

Recommendations

1.11 We make the following recommendations:

Recommendation 1: Straightforward, standardised and consistent language should be developed and used across all literature and product names for Simple Financial Products.

Recommendation 2: An agreed set of high-level principles for Simple Financial Products has been developed, which is set out in this Report. All Simple Financial Products must comply with these principles, which cover product features, language, terms and conditions, pricing transparency, purchasing process, and regular information and product updates.

Recommendation 3: The first set of Simple Financial Products will be:

- Easy Access savings account;
- 30 day notice savings account;
- Regular Savings Account; and
- Fixed Term Life Insurance.

Recommendation 4: A whole of life insurance product should be included in a later phase of Simple Financial Product development. Further research and consultation should also be undertaken on an income replacement product that could be safely included in the Simple Financial Product suite, that can be sold on a non-advised basis. This remains a high priority.

Recommendation 5: Because of their important role in some segments of the target market, the Credit Union movement will be invited to develop Credit Union specific products that meet their regulatory and constitutional requirements.

Recommendation 6: A Simple Financial Product badge, unique to the suite of Simple Financial Products should be created and awarded to products that meet the standards, via a robust accreditation process.

Recommendation 7: The British Standards Institution (BSI) should take on responsibility for the Simple Financial Product principles, for developing specific product standards and for the accreditation process. The BSI will take on board all of the work done so far by the initiative and will continue to work with consumer organisations, industry, trade bodies, government and regulators in the same manner as the Steering Group.

1.12 The rationale for these recommendations is set out in more detail in this Report.

Next steps

1.13 It is important that the initiative now moves into an implementation phase.

1.14 The trade associations represented on the Steering Group – British Bankers Association (BBA), Building Societies Association (BSA), and Association of British Insurers (ABI) – have committed to negotiating the specific arrangements with the BSI to take this work forward. The immediate focus will be on the initial suite of Simple Financial Products set out above, where much work has already been done. Further products should be introduced in due course. The BSI will also lead the work on developing and designing the Simple Financial Product badge.

- 1.15** All of these trade associations and the Money Advice Service will work together on the simplification and standardisation of language in co-operation with relevant regulators and the BSI.
- 1.16** The ABI will continue to work on an income replacement product, with a view to reaching final conclusions and recommendations within six months.
- 1.17** The Money Advice Service will continue its work to raise consumer awareness about the importance of financial resilience, in particular saving regularly and protecting dependents. Tools such as comparison tables, mobile apps and advice guides will be created using understanding of behavioural insights to engage consumers with Simple Financial Products and help them make informed choices based on their personal financial circumstances.²
- 1.18** HM Treasury will host a progress review of Simple Financial Products in 12 months with industry representatives and consumer groups.

Conclusion

- 1.19** The ability to manage your finances effectively and choose the right products and services leads to increased well-being and a better quality of life, at every given level of income. Research shows that this goes far beyond the more obvious material benefits. There are very positive psychological gains from the increased self-confidence that comes with financial resilience and security. Together with other initiatives, Simple Financial Products can make a very important contribution. It is my hope that the Simple Financial Product principles, and the simplification and standardisation of language, will have a resonance well beyond this initiative.
- 1.20** I would like to thank again the very many people who have worked on this project with passion and commitment. I am optimistic that over time this initiative will help to encourage many more consumers to engage with financial services with confidence, thereby enhancing their financial resilience to the benefit of themselves, their families and society at large.

Carol Sergeant

March 2013

² The Money Advice Service Business Plan will be published Spring 2013.

2 Simple Financial Products Principles

Recommendation

- 2.1 We recommend that the following set of high-level principles form the guidelines for the development of the Simple Financial Products standards.

Principles	
1	Essential product features that are simply explained, useful for the consumer and meet the needs of the target market.
2	Clear, straightforward and standardised language and presentation so that all firms are using the same language and presentation for product information to enable consumers to understand and compare products.
3	Standardised product names that clearly identify the nature of the product.
4	Conditions, options and exclusions are limited to what is appropriate, reasonable and necessary for the product, and are simply explained.
5	A straightforward and clear purchasing process for the consumer.
6	A clear pricing and return structure which is easily understood by the consumer and allows products to be compared with one another. This would include standard methods to calculate prices, interest, charges and appropriate notice for fair and reasonable changes in price, term or conditions.
7	Ancillary fees and charges for exceptional items are transparent, reasonable and predictable.
8	Clear methods of informing the consumer about the current prices and returns and any changes, as well as appropriately regular updates on the status and benefits of their product.
9	If a product loses its accreditation/certification the consumer should be told and there should be no penalty or charge for the consumer to exit the product.

Discussion

- 2.2 The Interim Report identified eight principles reflecting the initiative’s requirements of transparency, clarity, comparability, straightforward outcomes and effective communication.
- 2.3 There was a very strong consensus among responses to the consultation that the initiative should be under-pinned by an established set of principles, with a large majority agreeing with the set of principles put forward by the report.
- 2.4 Following further discussions on how the principles would interact with the standard setting and accreditation process, it was decided that minor amendments should be made to principles 4 and 8 to allow enough flexibility for them to be applied to a range of different products. An additional principle was added to deal specifically with the potential circumstance of a product losing accreditation.

3 Simple Financial Products

- 3.1** The Simple Financial Products initiative seeks to address some of the financial issues people will face during their working life and has focused on “rainy day” savings and protection products, as recommended in responses to earlier consultations.
- 3.2** The products have been designed to meet essential basic needs and no more, otherwise they will be too complicated. They should be easy to understand, easy to compare, easy to buy, and easy to maintain, as well as providing consumers with a fair deal. Simple Financial Products have been designed to be “non-advice” products. In other words they have been designed so that they can be bought directly (e.g. from providers and other intermediaries), supported by generic advice from the Money Advice Service and other organisations. This will mean buying the products will be affordable for consumers and marketing them will be commercially viable for providers.
- 3.3** Cash savings and the need for protection products are not always valued by some consumers. If consumers are to adopt a different view there will need to be increased awareness of financial needs supported by enhanced financial capability and justified self-confidence. The Money Advice Service has a duty to provide independent information and advice, but this will take time to have a significant impact and there are many others who should play a role.(Chapter 4 of the Interim Report has more detail on this).

Simple Savings Products

Recommendations

- 3.4** We recommend that three simple savings products are introduced:
- easy access account;
 - 30 day notice account; and
 - easy access regular savings account.
- 3.5** We also recommend that Credit Union versions of these products are developed.
- 3.6** Although current economic and market conditions are challenging, this is a long-term initiative designed to address long-term issues that pre-date the current environment. Work should therefore continue so that some providers can launch the products now, whilst others can do so when they judge it is commercially viable for them to do so.

Discussion

Interim Report

- 3.7** Proposals for an easy access savings account and a 30 day notice account were included in the Interim Report. These were intended to meet the needs of consumers in the target market for rainy day savings.

Development of the proposals

- 3.8** Responses to the Interim Report indicated broad support for the proposed products. There were, however, some concerns that in a low interest rate environment that the two products may be too similar and a longer notice period might be more appropriate.
- 3.9** A common challenge posed was how the simple savings products could compete in a market dominated by products with “bells and whistles”, such as introductory bonus rates. This remains a key challenge; the concept of Simple Financial Products is that they should be very straightforward, give fair value and meet core needs, but will not necessarily be the “best fit” for all consumers in all circumstances. Other benefits are that Simple Financial Products will help consumers benchmark against more complicated products, and so be better equipped to make a good decision.
- 3.10** Clarity was also sought over whether there would be both ISA and non-ISA versions of the product, and whether there would be withdrawal restrictions. It is intended that, where appropriate, both ISA and non-ISA versions of a product will be included in the Simple Financial Products suite, with providers able to offer both versions simultaneously via the same channel. Certain common withdrawal restrictions, such as daily ATM limits and “cash over the counter” limits, may need to be incorporated explicitly into the product criteria.
- 3.11** The ability of Credit Unions to develop products which meet the simple savings criteria was considered. The Association of British Credit Unions Ltd (ABCUL) highlighted changes required to the design of the products in order to accommodate credit union savings accounts. These accounts mostly pay an annual dividend rather than interest, and are subject to a maximum balance cap of £15,000 (or 1.5 per cent of the total shareholding in the credit union, whichever is the larger).
- 3.12** The consumer research highlighted that the current economic environment and rising living costs make savings a challenge with low interest rates providing little reward for saving. Given that savings seems for some people to be a challenging and unattainable goal it needs to be made achievable through messages such as “little and often” and features that reward people for positive saving behavior.

- 3.13** Both the consultation responses and consumer research were considered. Although the consultation responses did not result in material changes being made to the proposed product designs, the consumer research, which was limited in scale and scope, raised industry concerns about the viability of the easy access and 30 day notice products proposed due to their potential limited traction with the target market. Industry representatives expressed concern that the lack of clear current demand for the products through the focus group research may make it difficult to justify developing new products.
- 3.14** Although the current economic and interest rate environment is challenging, this will change over time. Moreover, there are already a number of products available in the market that are very close to the simple easy access savings account in particular, and the providers of those products may be willing to make the relatively small number of changes necessary to obtain the Simple Financial Products accreditation and badge to clearly signpost their product for consumers. Consumer representatives believed that it was important to simplify the range of savings accounts offered by individual banks, although they recognised that this was outside the scope of the Simple Products initiative.
- 3.15** The Interim Report included designs for two other potential simple savings products. One of these was a regular savings product, which was not included in the initial recommendations as it was felt to be intrinsically more complex than the other products. In light of the evidence from the consumer research that people wanted products that would help them to reinforce good savings habits, albeit balanced with a desire for easy access when needed, the regular savings product has been revisited.
- 3.16** The main benefits of a regular savings product is that it encourages a commitment to save, and rewards this behaviour. Having easy access meets the need to retain close control of their savings, by means, of unrestricted access when needed.
- 3.17** The following product features for an easy access regular saver were considered:
- a minimum rate for a one year term, whereby the rate can increase but not decrease over the term (but no introductory bonus or tiers);
 - withdrawals without penalty; and
 - consistent saving rewarded through an annual mechanism.

At the end of the first year, consumers should be encouraged to consider their options.

- 3.18** This design may appeal to consumers, who focus on rate of return and access, and who would like to be encouraged and rewarded for regular saving.

- 3.19** This product was not tested with consumers. However, it has the potential to harness the power of consumers to save "a little and often". In the next phase, consumer testing should consider:
- whether consumers would find the product easy to understand and compare;
 - how the reward mechanism should be structured and whether this should be conditional;
 - whether a guaranteed minimum interest rate for the one year term is necessary or whether a combination of variable interest rates (which would give more flexibility for providers when general interest rates change), combined with better information for customers about interest rate changes would be preferable;
 - whether a guaranteed minimum interest rate feature is sustainable in a more volatile interest rate environment than has been evident in the past four years; and
 - whether the product matures after 12 months or is continuous.
- 3.20** The Interim Report proposed that each Simple Financial Product type should use the same straightforward language and description of product features to support easy understanding and comparison. The terms and conditions of the product should also be exactly the same. Ideally, customers should only have to refer to a single short and straightforward document. (At the moment consumers are often expected to read both the specific product literature and an additional – often lengthy – document setting out the provider's general terms and conditions). However, it is recognised that full standardisation of the terms and conditions of all providers' simple savings products would take time to achieve. Industry representatives were concerned about the systems and other constraints of individual providers, and practical implications with respect to competition law.
- 3.21** We concluded that there is merit in setting Simple Product standards for all three savings products, i.e. the easy access account, the notice account and the easy access regular savings account. With regard to the notice account, the appropriateness of a 30 day notice period as opposed to 60 or 90 days will be left open for further consideration. (Whilst some responses to the consultation suggested there should be a longer notice period to distinguish the standard for this product from the standard for the easy access account, the recent consumer research showed that the target market preferred a shorter notice period).
- 3.22** We recognised the important role which Credit Unions play in meeting the savings needs of some people. The Group concluded that Simple Savings Products designed for Credit Unions and to be provided only by Credit Unions, would be helpful important additions to the Simple Financial Products and has invited ABCUL to take this forward with the BSI.

3.23 Annex B sets out a summary of high-level criteria for three simple savings products.

Simple Protection Products

Simple life cover

Recommendation

3.24 We recommend that the initial Simple Life Cover product is a fixed term life cover insurance product that will pay out a lump sum in the event of death. This product will not include any additional features or benefits.

3.25 We also recommend that a whole of life insurance product should be included in a future phase of the initiative. A whole of life insurance product will pay out a lump sum whenever the policyholder dies, rather than only during a fixed term.

Discussion

Interim report

3.26 The Interim Report included a proposal for a Simple Life Cover product that would pay out a lump sum in the event of death, while excluding additional features and options to make products easier to compare and simpler to understand.¹ Providers would compete on the basis of price, reputation and service. An example of the terms and conditions for a Simple Life Cover product are provided for illustrative purposes in Annex C.

Development of the proposal

3.27 Several responses to the Interim Report raised concerns over the exclusion of additional features, identifying the potential for the initiative to recommend a product design that did not offer optimum consumer benefits when compared to other products available on the market. The issue of price comparability was also raised, with these responses suggesting that a disparity between the initial premium quoted and the premium offered post-application was a source of confusion and a barrier to consumer engagement.

3.28 Findings from the consumer research revealed that consumers considered flexibility within the product attractive (i.e. through the inclusion of an option to increase cover through a Guaranteed Insurability Option (GIO)), although they did not necessarily understand what this may involve. The research also showed consumer concerns that

¹ The following product features will not be available via the purchase of the simple life cover product: indexation, GIOs, waiver of premium, accidental death benefit, decreasing/FIB cover option, joint life, alterations, conversion option and terminal illness.

they would not receive anything back if they did not die within the period of cover, and that the product does not “last for life”.

- 3.29** The Working Group considered both the consultation responses and consumer research. At a high-level, the Group agreed that recognition by the regulator of the spirit in which the products were developed (i.e. not designed to be a perfect fit, but good value, basic, entry level-products) would be important in encouraging providers to participate in this market.
- 3.30** Further work was carried out on the possible inclusion of additional benefits, as well as steps that could be taken to aid the ease of comparison at the point of sale. The ABI conducted a survey of industry members of the Working Group² to ascertain:
- the level of industry satisfaction with the Simple Life Cover proposal;
 - the effects that the exclusion of additional benefits from the product design would have on providers’ ability to launch and costs to bring the product to market;
 - the impact of including height and weight questions at initial quote stage; and
 - the frequency with which GIOs are exercised by policy holders.
- 3.31** This survey revealed general satisfaction on the part of providers with the product design proposed in the Interim Report and that for most of the respondents, the exclusion of additional benefits would not adversely affect the time or money required to bring such a product to market.
- 3.32** Results also indicated that the inclusion of height and weight at initial quote stage would have a positive impact on the customer experience, particularly around comparability of premiums. The survey suggested that the inclusion of these questions would increase the number of policies accepted at the premium quoted at the initial quote stage.
- 3.33** Finally, the survey revealed that the current take up of GIOs is very low – with responses ranging between rates of 0.002 per cent to lower than 2 per cent (including on advised sales) of customers who exercised a GIO.
- 3.34** Although the concerns raised over the breadth of the offering were recognised, they were balanced against the finding that complexity and differences among products create a barrier to a purchasing decision. The Group decided that a life cover

² ABI survey of industry providers of Life Cover products. Responses were supplied on a confidential basis and were designed to give approximate rather than precise figures. These responses covered approximately 60 per cent of the protection market.

product that paid out in the event of death with no additional features was the most compatible with the Simple Financial Products principles.

- 3.35** It was recognised that additional features offered by some products often represent good value, and that it was important that consumers should be made aware of these features. A signposting process, including information and guidance from the Money Advice Service and pre and post-sales communications from providers, was recommended as an appropriate way to ensure that consumers were made aware of additional features that could be purchased outside the Simple Financial Products suite.
- 3.36** Given the apparent benefits of including height and weight at the initial quote stage, the Group agreed that this should be included in the development of the Simple Life Cover product. Consideration should be given to including further questions at initial quotation stage to reduce the disparity between initial quotations and premiums charged after the full application process. For the time being only height and weight should be added, pending further research.
- 3.37** The Group recognised that the consumer research revealed apparent confusion between the concepts of “term” and “whole of life” cover. We therefore recommend developing a different name for the fixed term life product that makes it very clear what this product delivers, as well as including a whole of life product in the Simple Financial Products suite in due course.

Income replacement

Recommendation

- 3.38** We recommend that an income replacement product is not included in the initial suite of Simple Financial Products, but that further research and consultation is undertaken on a product that could be safely included in the Simple Financial Product suite, i.e. to be sold on a non-advised basis. This remains a high priority. The ABI will take forward the work on income replacement, with a view to reaching final conclusions and recommendations within six months.

Discussion

Interim report

- 3.39** The Interim Report outlined the difficulties the Steering Group had in reaching an agreed recommendation on how a Simple income replacement product could be developed. While there was strong agreement on the potential benefits of such a product, the Group recognised that it was hard to design a product that would meet two central requirements of the initiative – the ability to be bought and sold without individual financial advice; and how it could be constructed as a straightforward purchase decision in the current regulatory and legislative environment. There were

concerns for consumers buying appropriate products and providers being able to design and offer for sale “safe” non-advice products. Specific concerns included how the product would safely interact with both employer benefits and welfare means-tested benefits.

3.40 However there was strong agreement on the potential benefits of such a product and that it could play an important role in the accomplishment of the initiative’s overall objectives. The Interim Report therefore included a “straw man” Simple Income Replacement Product that attempted to find an appropriate balance between paying-out to meet key needs and offering choices of cover, while retaining a simple and clear purchasing process.

3.41 The product design included:

- premiums to be set at the outset (based on age at application) and guaranteed for the life of the policy;
- four deferral periods for receipt of payments to be offered for consumers to choose from (4, 13, 26 and 52 weeks). While it was acknowledged that this adds to the complexity of the product, it was felt necessary to reflect the different levels of cover provided by employers as well as the levels of savings held and other possible sources of income;
- no financial underwriting (i.e. no questions relating to earnings) for cover up to £1,000 a month. Over £1,000 per month (or provider maximum) applicants would have to state that the cover does not exceed 50 per cent of their earnings at the time of application. The definition of earnings should be standardised across providers. No financial underwriting would apply at time of claim;
- cover could be purchased and costed in units of £100 per month. Additional units could be purchased with minimal underwriting (i.e. the policyholder will be asked if anything has changed since the original application);
- cover (and premium) could be reduced if the policyholder’s circumstances change – for example if cover through employment increases;
- level of benefit chosen would be paid irrespective of level of pay-out from contribution-based state benefits and/or employer benefits; and
- it was agreed that to avoid the product becoming too expensive, a simple income replacement product would not be a “long-term” product (i.e. pay out until the policy holder returned to work no matter how long that might be, or to retirement), but rather be for an agreed fixed payment period. Several payment periods could be offered, for example, one, three and five years.

Consultation responses and further discussions

3.42 Several responses commented on the design of the Simple Income Replacement straw man, with a wide array of opinions expressed. There was very little consensus on either the purpose or design of the product among the responses and few common themes emerged. These responses included comments that the product should:

- be simplified further as it is still too complex;
- provide for unemployment;
- focus on short-term protection;
- be distributed through the workplace; and
- include an underlying guarantee to refund all premiums paid should the policy holder become eligible for means-tested benefits because of sickness or disability.

3.43 The majority of responses did not specifically indicate how the product might be simplified. Those that did make suggestions generally identified similar areas to those discussed in the Interim Report, including; providing greater certainty around means-tested state benefits, providing more information to consumers about their existing levels of cover from current providers, generating a better understanding of employee benefits, improving product literature and language, as well as suggestions that a minimum level of income should be established below which the product should not be bought. Consumer representatives were highly supportive of trying to develop an income protection product within the Simple Financial Products suite.

3.44 Following consideration of these responses, and in acknowledgment of the wide variety of opinions expressed, the Steering Group organised a workshop to further explore the appropriateness of the available options for inclusion in the Simple Financial Products suite – namely long-term, short-term, and group income replacement.

3.45 Discussions at the workshop were framed by the need for any potential product to meet the following criteria – that the product must:

- meet the needs of the target market;
- put the customer in a better position than having no cover at all;
- be able to be safely sold through non-advised channels;
- have standardised features with no add-ons; and
- operate and exist within the current regulatory and legislative environment.

- 3.46** The discussions on individual long-term and short-term income replacement highlighted concerns that this product could perhaps only be sold with individual advice in order to ensure suitability and meet consumer need. However, the requirement for individual advice would very likely make the product un-commercial or unaffordable for the target market. It was concluded that interaction with state benefits would remain an issue for the target market and for providers.
- 3.47** Another identified possibility was to deliver the product via employers. Group income replacement schemes are set up via the employer, who will have already put filters in place, based on the known needs and circumstances of that group of employees, such as choice of provider, waiting period and ceasing age. Within these circumstances a more mechanised non-advice decision-making process is easier to achieve. Further, this process also overcomes some of the regulatory issues raised with the long and short term options. To expand take up the product could, for example, also be offered through trade bodies and affinity groups. This would make the product available to the self-employed and employees who are not offered the cover by their employer.

Next steps

- 3.48** It is clear that there is a real consumer need for a straightforward product that pays out in the event of an individual being too sick to work, and there is currently very little supply. There are also many individuals and organisations who are very committed to trying to find a way to fill this gap, many of whom have been closely involved with this initiative.
- 3.49** Despite considerable efforts, no product design was forthcoming that we could confidently recommend should be immediately included in the Simple Financial Product suite that did not carry the risk of harming the reputation of the initiative through potential regulatory uncertainty, consumer misunderstanding and consequent mis-buying. However, we believe that work on developing such a product should continue.
- 3.50** There are several avenues through which efforts at both simplification and future product development could take place. The ABI is soon to begin the process of reviewing their *Statement of Best Practice for Income Protection* and it was agreed that this is an appropriate forum to implement the broader recommendation surrounding simplification and standardisation of language and harmonisation of terms and conditions.
- 3.51** Similarly, discussions from the workshop suggest an opportunity and desire for the current coverage of group income replacement to be increased and for issues of product portability to be addressed. Organisations such as Group Risk Development (GRiD), trade unions and affinity groups are well-placed to lead these discussions.
- 3.52** With regard to individual income replacement, a concerted approach is required, involving continued discussions among all stakeholders – consumer groups, industry, regulators and government.
- 3.53** The ABI has committed to further investigating the available options in consultation with these relevant stakeholders, with a view to reaching final conclusions and recommendations within six months.

4 Governance and Simple Financial Products Badge

Recommendation

- 4.1 We recommend that the Simple Financial Products principles, standard setting, and accreditation processes are taken up by the British Standards Institution (BSI), in consultation with consumer organisations and industry trade bodies, with Government and regulators in observer roles as they have been on the Simple Financial Products Steering Group. This is consistent with the BSI's approach in other sectors and will ensure a robust and permanent governance structure for Simple Financial Products now and in the future.
- 4.2 In addition, we recommend that a badge unique to the suite of Simple Financial Products is created and awarded to products which satisfy the Simple Financial Product standards. This will help consumers recognise these products and better navigate the financial market place. Simple Financial Products will carry both the Simple Financial Products badge, as well as the brand of the individual provider and the BSI *Kitemark*[®].

Discussion

Interim report

- 4.3 The Interim Report suggested that the success of the Simple Financial Products initiative would require the establishment of independent standard setting and product accreditation processes, free from vested interests and able to judge products solely on their adherence to established high-level principles. The Report concluded that such a body would need to be able to deal with all types of Simple Financial Products both as currently proposed and as might be developed in future; fit into the existing regulatory landscape; and not be prohibitively expensive. Current regulators and existing industry and consumer bodies were ruled out but the Report did invite comment on the appropriateness of the Money Advice Service to fulfil some aspects of this role.
- 4.4 In addition the Report proposed the creation of a Simple Financial Product badge unique to the initiative that would make clear to consumers which products meet the Simple Financial Product standards. Desk-based and behavioural economics studies suggested that the creation of such a badge would be critical to engendering trust, creating a mental shortcut, and generally supporting consumer engagement. The Report concluded that this badge should represent ease of understanding, comparison, purchase and on-going management and control of the products.

Consultation responses and consumer research

- 4.5 The majority of consultation responses agreed that there should be independent standard setting and a formal accreditation process, but that it should not be cumbersome, overly-bureaucratic, costly, or confuse the current regulatory environment. The greatest concern was that the creation of a new body would add unnecessary risk and costs to products and could confuse consumers.
- 4.6 There was also strong support for the creation of a Simple Financial Products badge. Several of the responses stressed the need for the badge to be informed by consumer research to best determine the characteristics and the values that the badge should represent. The characteristics suggested generally correlated with those identified by the Report, namely reliability, transparency and ease of understanding.
- 4.7 The consumer research supported these views, demonstrating that consumers would welcome a Simple Financial Products badge and that the characteristics that inform the badge would need to be well-defined to ensure consumers understood clearly what the badge stands for. For example the badge should not be interpreted as a “best buy”, or a false sign of “security”.

Recommendations

- 4.8 We consider that both an independent standard setting and accreditation process and the creation of a badge unique to the initiative are crucial to its success. While the Money Advice Service was suggested in the Interim Report as playing a possible role in this process, it was agreed in subsequent discussions that this would potentially confuse both the existing regulatory landscape and the remit of the Money Advice Service itself. We felt that a promotion and awareness raising role was more in keeping with the Service’s remit. As suggested in the Interim Report, this could include advice and support via their website featuring guides, tables and other tools to raise awareness of financial needs and help people decide whether they should consider a Simple Financial Product.
- 4.9 From the outset of their discussions, the Group agreed that the standard setting and accreditation processes must:
- be flexible enough to meet the unique needs of the initiative;
 - be independent and objective whilst retaining strong consumer and industry involvement;
 - take full account of regulatory and government requirements;

- achieve consistency in approach for all current and future Simple Financial Products of whatever type (e.g. currently both savings and protection products, but possibly other product types in future); and
- be straightforward, efficient and cost-effective to encourage provider participation.

4.10 The British Standards Institution (BSI) was referenced in the Interim Report as an organisation possessing both an existing standard setting and accredited certification process and a recognised badge in the *Kitemark*[®]. BSI is a Royal Charter company whose role as the UK's National Standards Body is recognised by way of a Memorandum of Understanding with HM Government. Due to their long-standing reputation among consumers and experience in creating standards, the BSI was invited to present possible standard setting, accreditation, governance and certification models to the Group that would satisfy the above criteria.

4.11 The BSI is a body that has experience in creating robust, product standards that could support an independent certification scheme. The BSI is also a certification provider and could therefore develop a badging scheme, along the lines of its existing *Kitemark*[®], to offer confidence to end-consumers that these standards have been adhered to. Further, they have the flexibility to develop an additional badge specifically to identify a Simple Financial Product.

4.12 Under this model, product design standards would be developed and revised through a consensus-based and transparent process, enabling all stakeholder views to be considered. This process would include a BSI Steering Committee that would mirror the representation of the current Steering Group to ensure continuity throughout the development process. It could also utilise the expertise from the initiative's existing Working Groups.

4.13 The product standards maintained and developed by BSI would follow the generic principles agreed by the Steering Group. This approach would ensure consistency between each product type covered by the Simple Financial Product principles, as well as providing a template for the development of future products. The standards developed would be capable of supporting individual product assessment and accreditation by a certification body.

4.14 For providers, the process of taking a product through an assessment would typically involve them first assessing the design and performance of their new or existing product ranges against the BSI standards. Providers would then apply to have their product ranges independently certified and, where successful, license the use of the Simple Financial Products badge from BSI on an annual basis. This would involve a licensing fee.

- 4.15** The BSI would conduct regular compliance checks to ensure that the licensed products continue to meet the relevant Simple Financial Product standards. If the product fails to meet the relevant standard, the licence would be withdrawn.
- 4.16** We believe that the BSI's approach satisfies the criteria established for an independent standard setting and accreditation process, as it would provide:
- continuity, and retain strong links with the initiative through the establishment of a Group similar to the current Steering Group *within* the BSI structure;
 - opportunity for further consultation and input from stakeholders during the finalisation of the product designs;
 - the establishment of a robust process, incorporating the Simple Financial Products principles, ensuring a consistent approach during the initial and subsequent phases of the initiative;
 - the creation of a set of standards and a unique Simple Financial Products badge for qualifying products that would provide a clear signpost for consumers;
 - a straightforward way for providers to achieve accreditation and access the badge;
 - a robust auditing process to ensure that the aims of the initiative are maintained; and
 - a strong track record of standards setting and delivering accredited independent certification.
- 4.17** For these reasons, we recommend that trade bodies, consumer organisations and other stakeholders work with the BSI to implement the recommendations in this report. This will involve refining and finalising the product designs contained within this Report, and developing the clear and straightforward language that is also a key recommendation. Most of the groundwork on product design has already been completed, so this should not require very much additional work. There remains substantial work to be done on language and presentation.
- 4.18** Additionally, we recommend that BSI, in consultation with industry and consumer bodies, lead on the development of a unique badge to be awarded to qualifying Simple Financial Products via the accreditation process. This badge will be additional to the BSI *Kitemark*® in order to signpost the particular characteristics of Simple Financial Products.

5 Summary of recommendations

We recommend that:

Recommendation 1: Straightforward, standardised and consistent language should be developed and used across all literature and product names for Simple Financial Products.

Recommendation 2: An agreed set of high-level principles for Simple Financial Products has been developed, which is set out in this Report. All Simple Financial Products must comply with these principles, which cover product features, language, terms and conditions, pricing transparency, purchasing process, and regular information and product updates.

Recommendation 3: The first set of Simple Financial Products will be:

- Easy Access savings account;
- 30 day notice savings account;
- Regular Savings Account; and
- Fixed Term Life Insurance.

Recommendation 4: A whole of life insurance product should be included in a later phase of Simple Financial Product development. Further research and consultation should also be undertaken on an income replacement product that could be safely included in the Simple Financial Product suite, that can be sold on a non-advised basis. This remains a high priority.

Recommendation 5: Because of their important role in some segments of the target market, the Credit Union movement will be invited to develop Credit Union specific products that meet their regulatory and constitutional requirements.

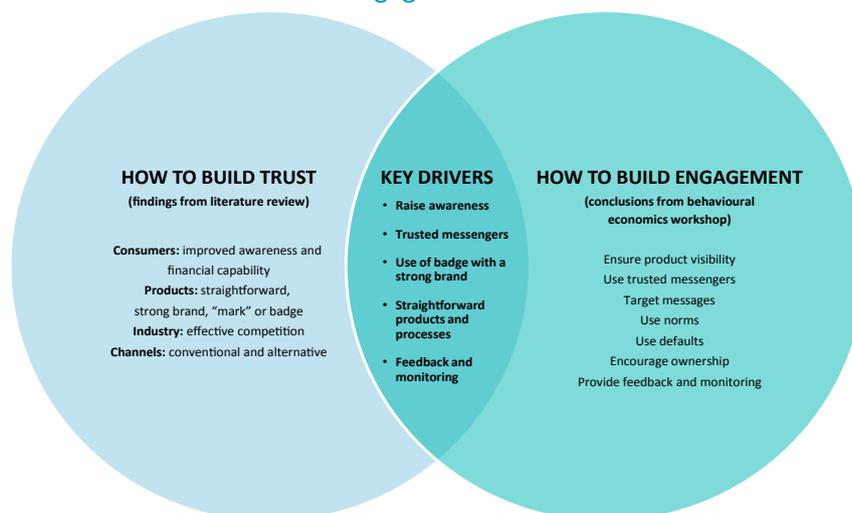
Recommendation 6: A Simple Financial Product badge, unique to the suite of Simple Financial Products should be created and awarded to products that meet the standards via a robust accreditation process.

Recommendation 7: The British Standards Institution (BSI) should take on responsibility for the Simple Financial Product principles, for developing specific product standards and for the accreditation process. The BSI will take on board all of the work done so far by the initiative and will continue to work with consumer organisations, industry, trade bodies, government and regulators in the same manner as the Steering Group.

Annex A Research

- A.1** The Interim Report¹ described the Simple Financial Product target market. The analysis focused on those households who have resources to engage with savings and protection products but have done so in limited quantities, or not at all. The Simple Savings target market is **15.5 million households** or **29.4 million adults** and the Simple Life Cover target market is **9.7 million households** or **19.8 million adults**.²
- A.2** For the Simple Savings target market, most people already have a savings account but do not use it, so have little awareness of the terms and conditions, the interest rate or account status and have never bothered to shop around or compare products.
- A.3** Unlike the Simple Savings target market most of the Life Cover target market who might benefit most from this type of protection, for example households with financial dependents, do not own life cover.
- A.4** We have conducted desk based research and behavioural economics workshops to develop our thinking around motivations and consumer engagement for Simple Financial Products. The main drivers for building trust and engagement included raising awareness of the benefit of greater financial resilience, using trusted messengers to deliver messages, use of a badge to signpost a simple product, having straightforward products that are easy to compare and buy and creating a consumer feedback process through simple communication and also reward messages that reinforce good financial habits (i.e. meeting a savings goal).

Figure A.1 How to Build Trust and Engagement



¹ www.hm-treasury.gov.uk/d/sergeant_review_simple_financial_products_interim_report.pdf

² The basis for the Simple Financial Products target market segmentation is the Experian Financial Strategy Segments 2011. www.experian.co.uk/business-strategies/financial-strategy-segments.html

- A.5** Our findings demonstrate that simplicity is a key component of building up trust, which in turn will encourage consumers to engage with financial services. Consumers who have confidence in their own capability and in the financial service industry will be more likely to buy financial products and services, which will help them manage their money.

Qualitative consumer research summary

- A.6** Following the Interim Report, the next step in the process was conducting consumer research to test the three proposed Simple Financial Products and the concept of a Simple Products badge with the target market.
- A.7** For research purposes, the target market was further segmented according to the attitudinal debt classifications used by the Money Advice Service to eliminate households with crisis debt problems.
- A.8** A qualitative research approach was used with six 1.5 hour focus groups for savings and 10 one hour in-depth interviews for protection. Reflector telephone follow up calls were also used to see if any further consideration had been given or actions taken as a result of participation in the research.
- A.9** The research objectives were to:
- assess the importance of different product features and additional features to address barriers to saving or buying protection;
 - understand the ability of the proposed products to remove the barriers to saving;
 - ensure the language used delivers the required level of clarity, transparency and understanding; and
 - explore the use of a Simple Financial Products badge to help consumers and what barriers may it need to overcome to be successful.

Savings

Impact of current environment

- A.10** With the current economic environment and rising living costs the focus is on day to day living and savings is felt to be impossible. Saving seems to be a challenging and unattainable goal for the focus group who think of it in terms of large amounts and not incremental protection, built up gradually. There are societal pressures to keep up with peers and people are inclined to spend money to show that they are coping in the recession rather than save.

- A.11** The interest rates on offer provide little reward for saving. The current framing for savings is around the return (currently deemed to be too low) rather than the positive benefit of the financial resilience and confidence that comes with saving. The notable exception is saving for a short term, aspirational reason like a wedding or holiday.
- A.12** A clear generation divide was identified, with older people valuing the benefits of saving and younger people, feeling more optimistic about their ability to cope with unforeseen circumstances and depending on borrowing to meet unplanned expenditure or expecting welfare benefits or quickly gaining new employment to replace lost income. Savings behaviour has changed. People understand the need to save but there are conflicting priorities and short term needs often override longer term intentions to save.

Awareness

- A.13** Savings need to be made to feel achievable and the message for savings needs to be “little and often”. The areas that may help facilitate behaviour change emerged which include:
- explaining the consequences of inadequate financial provision;
 - making saving easier and more rewarding; and
 - positive reinforcement and emotional pay-off from savings.
- A.14** Positive reinforcement and emotional pay-off was suggested in the form of tiered rates, bonus payments for reaching savings target or a prize draw for regular saving. People want to feel rewarded as they attain savings milestones. Building in reward mechanisms and make savings feel achievable were clearly important though additional more complicated product features may not be the answer. Some of the focus group did not understand more complex financial products such as cash ISAs .

Conclusion

- A.15** The qualitative savings research supports our initial consumer behaviour research findings presented in the interim report. The interim report highlighted the following:
- it is important to reassure people with positive messaging (i.e. savings bring freedom from debt) to feel justifiably confident about taking out a financial product to suit their needs;
 - the use of norms is very powerful as people are keen to do what others around them are doing;

- defaults like standing orders, money moved automatically to a savings account are helpful;
- building goals into products is encouraging; and
- providing feedback and monitoring makes people feel good about reaching their goal or having money available to use in an emergency.

Protection

Impact of current environment

- A.16** As with savings, there are competing priorities for peoples' money. Most people with dependents perceive they should have life insurance. It comes into focus at key life moments but with the current economic climate, it is considered a luxury.
- A.17** Culturally we are disengaged from the subject of unexpected death and do not like to discuss the possibility or consequences. This is a large cultural barrier. Life insurance and making a will is not discussed by peers and lacks salience. The natural optimism bias that "this won't happen to me" makes action non-urgent.
- A.18** Future financial planning does not come naturally to most, but people do understand the need for protection products though these products are perceived to be complex.

Awareness

- A.19** The Simple Life cover product is conceptually appealing and could help address some of these cultural barriers. For people who have decided they need life cover, a simple product may overcome the belief that insurance is complex and a difficult product to research. It may help consumers make a good decision quickly rather than having to invest time and effort into learning all the product options, which is of itself a significant barrier to engagement.
- A.20** The complexity of the product application process is not a barrier for purchasing life cover but there are some stumbling blocks. Consumers expect to be asked questions and perceive too few questions as "not thorough enough".
- A.21** There is lack of context and transparency that undermines consumer confidence. It is assumed that insurance providers are looking to design a process that does not pay out.
- A.22** The clearly explained product details of the Simple Life Cover product provided clarity, reassurance and a sense of value for money. The product principles helped reassure and instilled confidence that people could understand the product and safely purchase it.

Simple Financial Products badge

- A.23** The desk based research outlined in the interim report found endorsement schemes are widely used to help consumers identify products and provide assurance that certain standards are met. Though there is less robust evidence that it encourages consumers to take action to purchase. This consumer research echoed these findings.
- A.24** The consumer research found a Simple Financial Products badge has the potential to help consumers understand and compare products, They agreed with the concept of easy to understand, easy to compare, easy to buy and easy to manage. These characteristics need to be well defined to prevent misattribution of other characteristics such as “best rate” or “guaranteed”.

Language

- A.25** For both products, consumers appreciate the concept of simplicity and see great value in improving and simplifying language, terms and conditions and product literature. There was a feeling this should not be exclusive to Simple Financial Products but apply to all products across the industry.
- A.26** The simplification of language will be beneficial to all consumers and not just the target market for this initiative. The work of the National Employment Savings Trust (NEST) and the Department for Work and Pensions (DWP) on pensions language are examples of simplification of language and standardisation of terms that is helping consumers.

Annex B

Simple Savings Products

B.1 The table below sets out a summary of high-level criteria for three potential simple cash deposit products.

	Simple easy access ¹ product	Simple notice product	Simple easy access regular saver product
Product rationale	For everyday savings that can be accessed immediately if needed for an emergency or 'rainy day'	For savings that can be accessed with 30 days' notice for expected wexpenditure	To encourage regular saving behaviour whilst giving easy access for unexpected expenditure
Minimum balance/ deposit	£1	£1	[£10] or less
Maximum balance	Not less than [£x]	Not less than [£x]	Not more than [£x]
Method of deposit	No restriction – all methods allowed – none prescribed	No restriction – all methods allowed – none prescribed	No restriction – all methods allowed – none prescribed
Frequency of deposit	No restriction	No restriction	Regular deposits required – provider sets frequency
Charges	No charges for day-to-day usage of the account Charges for exceptional items, such as duplicate statements or replacement passbooks and specific payment types allowed.	No charges for day-to-day usage of the account Charges for exceptional items, such as duplicate statements or replacement passbooks and specific payment types allowed.	No charges for day-to-day usage of the account. Charges for exceptional items, such as duplicate statements or replacement passbooks and specific payment types allowed.
Withdrawal restrictions	Allows withdrawal with no penalty Specific operational withdrawal restrictions to be clearly defined. e.g. daily ATM and 'cash over the counter' limits	Withdrawals allowed with 30 days' notice or loss of up to 30 days' interest. No other restrictions Specific operational withdrawal restrictions to be clearly defined. e.g. daily ATM and 'cash over the counter' limits	Allows withdrawals without penalty Specific operational withdrawal restrictions to be clearly defined. e.g. daily ATM and 'cash over the counter' limits
Limit on number of accounts per distribution channel	One product, per brand, per channel	One product, per brand, per channel	One product, per brand, per channel

¹ The title "easy access" acknowledges that withdrawals via some channels may not be immediate – e.g. access to some postal accounts may be via a BACS transfer or cheque.

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	Simple easy access product	Simple notice product	Simple easy access regular saver product
Interest restrictions	No introductory bonus No tiered rates	No introductory bonus No tiered rates	No introductory bonus No tiered rates Minimum variable rate – which can be increased but not decreased over the course of a year. Terminal bonus allowed (optional) to reward consistent saving
Default product at end of term?	N/A	N/A	Product rolls annually into new Simple Easy Access Regular Saver; or matures into another easy access product paying the same rate as the regular saver product or cash is repaid to the customer.
Compulsion to offer via specified channels?	No	No	No
Should there be a requirement for pricing of the products to be the same irrespective of the delivery channel?	No	No	No

Annex C

Simple Life Cover Policy

Introduction

This is a Life Cover policy. It is designed to pay a cash sum on your death if you die on or after the date the policy starts and before the date the policy ends. This document sets out your contract with us and should be kept in a safe place.

Cover provided by this policy

Who is covered by the policy?

Only you are covered.

How much cover do I have and how long does it last for?

You have £XX,XXX Life Cover. The cover starts on the policy start date and ends on:

- the impayment of the sum assured; or
- the policy end date.

Once this policy ends no further benefits or premiums will be payable

Who do you pay the cash sum to?

The cash sum is paid to your chosen representative.

Payment of premiums

When are premiums to be paid?

We will collect your premiums from the date the policy starts and every month until the date the policy ends.

Will the amount I pay ever change?

The premiums you pay will stay the same each month and will never increase or decrease.

What happens if I don't pay the premiums?

If you don't pay the premium within 30 days of it being due we have the right to cancel your policy. If we cancel the policy the cover will end and no more premiums will be payable. We will not refund any premiums already paid.

General conditions

- If your date of birth as shown in your policy schedule is incorrect we will adjust the cash sum to the amount that would have applied if your correct date of birth had been given;
- If you intentionally give us an incorrect date of birth or fail to disclose material facts then we have the right to cancel this policy;
- This policy is governed by English Law; and
- We may make changes to the policy terms and conditions that we reasonably consider appropriate due to a change in any applicable legislation, regulation or taxation. If this happens we will notify you in writing in advance of the change.

How to...

Contact us

If you have any enquiries please call us on xxxxxxxxxx or write to us at xxxxx,xxxxxxxx,xxxxxxx. Please quote your policy number as show on your schedule.

We may record and monitor calls. Call charges will vary.

Make a claim

In the event of a claim please call us on xxxxxxxxxx or write to us at xxxxxxxxxxxxxxxxxxxx

We may record and monitor calls. Call charges will vary. We will require the death certificate of the person covered and the policy schedule and any other documents we may reasonable request. If any information reasonably required to assess the claim is not given we reserve the right not to process the claim until we receive it.

Cancel this policy

You can cancel this policy at any time.

Once this policy starts we will send you a notice of your right to cancel. If you cancel this policy within 30 days of receiving the notice we will refund any premiums paid. If you cancel this policy at a later stage you will not get any money back.

Make a complaint

If you wish to complain about the service you have received from us or you would like us to send you a copy of our internal complaints handling procedure please contact

us on xxxxxxxxxxxxxxxxx. Alternatively you can write to us at xxxxxxxxxxxxxxxxx. If you remain unsatisfied you can complain to xxxxxxxxxxxxxxxxxxxxxxxxx.

Making a complaint will not affect your legal rights.

We may record and monitor calls. Call charges will vary.

The Financial Services Compensation Scheme (FSCS)

The Financial Services Compensation Scheme (FSCS) is designed to pay customers compensation if they lose money because a firm is unable to pay them what they owe for any reason. Your ability to claim from the scheme and the amount you may be entitled to will depend on the specific circumstances of your claim. Most customers, including most individuals and small business are covered by the scheme. You can find out more about the FSCS (including amounts and eligibility to claim) by visiting its website www.FSCS.org.uk or calling 0800 678 1100.

The FSCS may arrange to transfer your policy to another insurer, provide a new policy or if these are not possible, provide compensation. FSCS compensation covers payment up to 90 per cent of the value of the claim per firm. There is no upper financial limit on the claim. However rules of the FSCS may change and the FSCS may take a different approach on the application of these rules to a firm depending on the circumstances of the failure of that firm.

Annex D

Steering group terms of reference

Background

The Government announced in October 2011 the creation of an independent Simple Financial Products Steering Group chaired by Carol Sergeant. The Group is tasked with devising a suite of Simple Financial Products that will help consumers navigate the financial services market. The aim is to help increase the number of new participants in financial markets by providing straightforward, easy to understand products that are clearly identifiable as meeting “Simple Product” standards. Responses to the Government consultation on Simple Products suggest that the group should initially focus on simple deposit savings and protection insurance products.

Purpose of the Group

To initiate the development of a suite of Simple Products and identify where these products already exist. These products should offer consumers a straightforward benchmark that gives them the confidence to make good decisions in an often bewilderingly complicated market place.

Specifically, these products should:

- help consumers benchmark and compare other products on the market;
- be understandable and accessible to the mass market;
- not be tailored to meet individual needs, but provide consumers with confidence that a simple product will meet their basic needs and offer them a fair deal; and
- be a viable commercial proposition for providers.

Remit

The Group should consider how Simple Products will be identified, structured and, where they do not already exist, brought to market.

The group will establish working groups to decide:

- which products should be taken forward for development;
- the process by which final product specifications and designs will be agreed;
- how the products should be branded and brought to market; and
- how the product brand should be approved and by whom.

The Group should also consider the scope for extending the Simple Products principle to further product categories in the future.

Governance

The Steering Group is independent and is chaired by Carol Sergeant, pro bono. Other Steering Group members are the Association of British Insurers, the British Bankers' Association, the Building Societies' Association, Money Advice Service, Consumer Focus and Which. HM Treasury and the Financial Services Authority will have observer status on this Group. A Secretariat is being provided by the Association of British Insurers and project support from the Money Advice Service.

Output

Carol Sergeant will submit a report on behalf of the group to the Financial Secretary by the end of July 2012.

Annex E

Summary of consultation responses

- E.1** This chapter presents a summary of responses to each question asked in the Simple Financial Products Interim Report.

Question 1: Do you agree that there should be a set of high-level principles?

- E.2** There was a very strong consensus that the initiative should be under-pinned by an established set of principles, with thirty responses to this question in agreement.

Question 2: Do you have any comments on the proposed principles?

- E.3** The large majority of respondents agreed with the set of principles proposed by the Review. Some responses agreed in general to the principles but had comments on the strength or suitability of specific principles.
- E.4** Of these, three responses suggested that the stipulation for a straightforward and clear purchasing process (Principle 5) should be further explained, with standardisation of application forms and a plain English review of all documentation being offered as an option to achieve this.
- E.5** A further three responses (one each from industry, charity sector and a government body) expressed concern that the issue of changes to terms during the life of the product (Principle 8) was not adequately addressed, recommending that more consideration of the types of changes deemed acceptable is required, and whether conditions should be attached to a firm's ability to change the terms and conditions of a product and whether this should be prohibited entirely.
- E.6** One response questioned whether, due to their business model, credit unions would be able to satisfy the criteria of the principles and that some modifications may be required to allow these firms to offer simple products. In particular it was noted that the requirements under Principle 6 were not inclusive enough to allow credit unions offering a dividend to offer branded Simple Products.

Question 3: Do you agree that firms should be limited to one issue of each Simple Product type, per brand, per channel?

- E.7** There was broad consensus with this proposition, with 30 respondents in agreement.

- E.8** Those responses that disagreed did so due to concerns that different pricing per channel would potentially add to the complexity of the initiative as well as disadvantage certain groups of customers, i.e. online v branch access.
- E.9** Several industry responses highlighted the need to acknowledge that products will occasionally have to be withdrawn or updated in response to regulatory or legislative developments, and that this shouldn't be prohibited within the initiative.
- E.10** Five responses highlighted potential difficulty with "brand", commenting that products are often offered in partnership with other firms and would therefore carry both partners' brands. One response suggested that firms should be restricted to one Simple Product per Group to avoid market complexity, while four responses stated that the ability to offer brands in partnership would be central to the commercial viability of the products.

Question 4: Do you agree with the initial suite of Simple Products?

- E.11** The Review recommended that the initial suite of simple products should include; an Easy Access Savings Account, a 30 day Notice Account, and a life cover product. Despite the fact that the income replacement product was addressed elsewhere in the consultation responses, thirteen responses commented on this product in this section.
- E.12** There were ten negative responses to the suggested suite, with a breakdown of five from industry participants, two from trade bodies, two from research or consultation companies and one from an individual respondent.
- E.13** Of these responses, nine suggested that an Income Replacement product should be included as an immediate priority, and one that an investment product that provides access to stock market investment should be included.
- E.14** A further four responses agreed with the initial suite but recommended that an income replacement product should be included within the suite as soon as possible.
- E.15** Further suggestions on expansion of the suite following the initial launch include GI (2), basic bank account (1), a regular savings account (1), a current savings account (1) a Credit Union savings product (1), a fixed term account (1), an investment product (1).

Question 5: Do you have any comments on product design?

Savings products

- E.16** 15 responses (seven industry, three trade bodies, three charities, a research company, and one consultancy) discussed the design of the savings products in-depth.

E.17 Key issues raised included:

- Introductory/tiered rates – Industry responses raised concerns over the commercial viability or consumer attractiveness of the products in the absence of these rates. Non-industry responses tended to welcome their exclusion as it would reduce complexity.
- Maximum balances – Concerns were raised that the inclusion of a maximum balance would add to complexity. The need for this feature was also questioned given the identified target market of the initiative.
- Existing rather than new products – there was some industry preference for a focus on the badging of existing products that meet established criteria rather than creating a new suite of products that would potentially add a further layer of complexity to the market.
- Method of deposit – responses from the charity sector in particular emphasised the need for providers to be mindful of the needs of different groups (such as people with mobility difficulties, sensory disabilities or a learning disability for instance, or people in rural areas) to ensure that there are no undue barriers to using a product.
- Notice period – it was suggested that in order to enable providers to offer better rates on the notice products, consideration should be given to a longer notice period (for example 90 days) and to not permitting early access.
- Product range – concerns (including from industry) were raised that the two savings products are too similar, particularly in a low-interest environment where the return on a 30 day Notice Savings Account may be similar to the Easy Access Savings Account.
- Credit Unions potentially being excluded from offering – one trade body response noted that many credit unions will be excluded from seeking accreditation to offer the savings products because the vast majority of credit unions pay a dividend on savings, rather than fixed interest, and a requirement for members to buy a share to join the credit union, and potentially an entrance fee.

Life Cover

- E.18** 17 (ten industry, three trade bodies, two consultancies, one individual and one Government body) discussed the design of the life cover product in-depth.

E.19 Key issues raised included:

- Quality of offering – several industry and trade body responses identified the potential that the initiative could create a product that was inferior to life cover products already on the market by excluding additional benefits such as terminal illness cover and waiver of premium. There was concern that this could jeopardise the effectiveness of the Simple Products brand.
- Application process – these responses stated a belief that much of the complexity associated with life cover products exists in the application process and that simplifying or standardising underwriting questions could significantly improve this process.
- Claims process – several responses recommended that the design should include a process of paying the sum assured to chosen dependants without this payment being held up by probate or subject to inheritance tax. These responses suggested that this could be achieved by writing the policy using a simple trust and applicants being asked to list their chosen dependents in the application.

Question 6: Do you have any comments on the proposed design for a Simple Income Replacement Product?

E.20 22 responses commented on the design of the Simple Income Replacement Product, with a wide array of opinions expressed. There was very little consensus on either the purpose or design of the product among the responses and few common themes emerged. These responses included comments that the product should:

- be simplified further as it is still too complex;
- address unemployment;
- focus on short-term protection;
- be distributed through the workplace; and
- include an underlying guarantee to refund all premiums paid should the policyholder become eligible for means-tested benefits because of sickness or disability.

Question 7: Do you think this product can be made sufficiently straightforward to qualify as a Simple Product?

- E.21** Responses to Question 7 were similarly varied. 17 responses agreed that the product could be simplified, while 17 responses either didn't answer the question or provide a clear opinion. Nine disagreed with the statement.
- E.22** The majority of positive responses did not specifically indicate how the product might be simplified, with those that did largely identifying similar areas to those contained in the Report, namely – providing certainty around means-tested state benefits, providing more information to consumers about their existing levels of cover from current providers, generating a better understanding of employee benefits, and improving product literature and language.
- E.23** Three responses suggested the establishment of a minimum level of income below which the product would be labelled unsuitable. This could act as a potential solution to potential mis-selling related to the forfeiture of means-tested state benefits.
- E.24** Similar to question 6, several responses suggested that the product should concentrate on a short-term rather than a long-term income replacement product.

Question 8: Do you agree with this approach (that a Simple Products badge should be created)?

- E.25** The responses indicated strong agreement for the creation of a Simple Products badge, with 33 positive responses and 9 respondents not answering the question or offering a clear opinion.
- E.26** One response explicitly disagreed with the proposal, stating that a badge would be unnecessary given the FCA's publicly stated intention to become more pro-active in product design.
- E.27** Several responses stressed the need for the badge to be informed by consumer research to best determine the characteristics and the values that the badge should represent. Suggested characteristics included reliability, transparency and ease of understanding.
- E.28** Four responses (two industry and two trade bodies) noted the role that the Money Advice Service could play in promoting and signposting the badge.

Question 9: Do you agree there should be a formal independent accreditation process?

- E.29** Of the 43 responses, 23 respondents agreed with the question “Do you agree that there should be a formal accreditation process?” while nine respondents did not answer the questions or offer a clear opinion. Four responses disagreed with the question.
- E.30** While agreement was strong, concerns were raised that the process should not be cumbersome, over-bureaucratic or costly. One respondent was wary that excess cost could exclude smaller providers from being in the initiative.
- E.31** The negative responses concerned the role of the regulator – two (one industry, one consultancy) believed that the FCA should accredit the products, one that the FCA should provide certainty that the products would not require the same advice process as other products, and one that there should be no need for product accreditation given the regulator’s stated intention to be more pro-active in product design.

Question 10: Do you agree with the proposed approach to accreditation?

- E.32** Twenty-three respondents agreed with proposed approach, with seven respondents disagreeing and 12 respondents not answering the question or offering a clear opinion. There was, however, a degree of ambiguity about what the respondents were agreeing to. The greatest concern was creating a “new body” which may add unnecessary risk and costs to products and also confuse consumers. Nineteen responses made direct reference to the Money Advice Service and their potential role in accreditation.
- E.33** Arguments against establishing a new accreditation body were that it would be expensive and contribute to the cost of the process, could cloud the regulatory landscape, would lack existing goodwill or trust to leverage, and be contrary to the Government’s stated policy of streamlining public bodies.
- E.34** Strongest among these was the regulatory question, particularly from industry respondents. These responses stated that in the absence of the regulator directly accrediting the products there was a need to confirm the regulatory approach it would take, particularly regarding the sales process.
- E.35** These responses suggested that unless it was recognised that the products are designed for a particular target market and may not provide consumers with the best possible outcome from products available on whole market, the risk of mis-selling would seriously undermine the initiative.

Question 11: Do you agree that on-going and systematic consumer research is required to support the Simple Products initiative?

E.36 There was general consensus that both initial and on-going research would be required to support the initiative, with most responses to this question describing suggestions for an initial phase of required research.

E.37 These responses included:

- Demand – the importance of identifying customer need for the products from the outset as a way of estimating future demand. There was a theme among industry responses in particular that without associated efforts to increase customer awareness and demand, the supply of new products would have little effect in addressing the savings and protection gaps;
- Likely buying behaviour – including channel preference;
- Language – the need to develop and test straightforward language including product names, product literature and terms and conditions;
- Simplicity dividend – a greater understanding of the effect that making products and literature simpler will actually have;
- Suitability of existing products – the need to determine if it would be more appropriate to signpost customers to existing products that satisfy the principles and criteria.

E.38 Suggestions for on-going research included the monitoring of basic service levels and an annual market audit with published results of total and average balances, levels of coverage, switching rates etc.

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