A Report for HM Treasury

Literature Review on Lessons Learned from Previous "Simple Products" Initiatives

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Executive Summary

- The objective of this report is to provide a detailed evaluation of previous "simple product" initiatives in retail financial service and highlight pertinent lessons for the future.

- The main initiatives under consideration are CAT standards for financial products and product regulation in the form of Stakeholder pensions and other Stakeholder products. The report considers positive aspects and outcomes of previous initiatives, as well as the factors underlying less successful elements of previous attempts to introduce "simple products".

- The report considers briefly "simple product" initiatives in an international context, notably the debate concerning "vanilla" products in the US and also South Africa's experiences with CAT standards for financial products. The report also reflects on whether there are any pertinent lessons from the UK's experience with Basic Bank Accounts.

- The majority of commentary and discussion found focussed on Stakeholder pensions, rather than Stakeholder products more broadly or the impact of CAT standards. Therefore, the analysis contained in the main report necessarily reflects this balance.

- The main target markets for previous "simple product" initiatives have been identified as those on low-to-medium incomes and those with little experience and limited provision.

- Most commentary and analysis characterises previous "simple product" initiatives as not having had the significant impact on engagement and provision anticipated, particularly in the main target markets.

- Sales data is provided which indicates, at best, an ambivalent response from consumers and the industry to previous "simple product" initiatives.

- There is a reasonably strong level of support and an acceptance that Government should be seeking to assist consumers in financial services markets by championing "simple-products".

- Greater effort and imagination is required to catch the attention of consumers and particularly those from the key target segments. More thought should be given to branding, logos and other presentational matters associated with any future initiative, to ensure that "brand values" are clearly articulated, the associated benefits are appreciated and the products appear relevant and suitable for those in the main target markets.

- Efforts to professionalise the market for financial advice and increase the transparency of rewards for advisers will be important in increasing trust and engagement in financial services, thus helping to ensure the success of any future "simple product" initiatives if sold through advised channels.

- The combination of a relatively low fee cap, free movement in and out of products without penalty and the relatively low level of funds invested by many users together represented a formidable barrier to enthusiasm from the industry for previous "simple products." If future initiatives incorporate a fee cap, then such a cap must be set at a level which will allow firms to derive reasonable profitability from the provision of such products.

- At the same time, consumers do not have the knowledge, confidence or enthusiasm to seek out "simple products" on their own initiative, meaning that potential levels of business are insufficient to encourage providers to offer such products.

- One particularly positive aspects of the Stakeholder pension regime was the combined effect of controls on charges for Stakeholder pensions and a regulatory requirement (RU 64) to justify non-recommendation of a Stakeholder pension. This had the effect of putting downward pressure on fees levied for pensions products more generally in the wider market. A regulatory requirement similar to RU 64 could be considered for all products covered by any future "simple product" initiative.

- A "guided-sales" approach to the distribution of "simple products" should be given serious consideration as part of any future "simple products" approach and could be incorporated into the Moneymadeclear generic financial advice service.

- If there is to be a form of "basic advice" as part of any future initiative, the difference between this level of advice and full advice has to be made entirely clear.

- Providing access to adequate advice profitably has been one of the key factors in determining the success, or otherwise, of previous "simple product" initiatives. With fees capped at 1% for CAT standards and later 1.5% for Stakeholder products, providers were reluctant to distribute "simple products" through advised channels, even once a basic advice regime was in place. Therefore, it is apparent that there are a number of interdependencies with the ongoing RDR. Any recommendation as to how to improve the nature of Basic Advice or offer an alternative source of advice in the future must be made with reference to, and be complementary with, the latest developments in the approach adopted under the RDR.

- The use of a code similar to the Banking Code, or a financial sector charter as used in South Africa could be considered to encourage institutions to participate fully in any future simple product initiative.

- No strong evidence could be found as to whether the product regulation approach or voluntary standards approach has been more successful in increasing engagement and provision. Adopting one or other of the approaches, rather than a combination of both, avoids potential confusion. The voluntary standards approach is likely to be viewed as less draconian by firms and could be complemented by mandated strong product warnings for products that don't meet the necessary standards. Such an approach could be coupled with a requirement to benchmark against a simple product.

1) Introduction

The objective of this report is to provide a detailed evaluation of previous "simple product" initiatives in retail financial services and to highlight pertinent lessons for the future. The main initiatives under consideration are CAT standards for financial products and product regulation in the form of Stakeholder pensions and other Stakeholder products. The report considers positive aspects and outcomes of previous initiatives, as well as the factors underlying less successful elements of previous attempts to introduce "simple products". It aims to provide a number of key insights and recommendations to guide the development of future policy in the area. To do so, the report considers:

I. The degree to which previous "simple product" initiatives are generally judged to have been a success or otherwise and a detailed analysis of attendant evidence and opinions.
II. Whether previous "simple product" initiatives succeeded in appealing in particular to the main target segments identified.
III. What are consumer attitudes towards previous simplified product initiatives and to what degree do consumers perceive such initiatives to be an aid to decision making?
IV. What other consumer factors account for the success, or otherwise, of previous initiatives?
V. How have simple product initiatives impacted on the conduct and behaviour of firms, in particular in the areas of product design, pricing, marketing and distribution?
VI. What narrative was constructed by the financial services industry in order to frame the debate surrounding simplified products and their role in meeting consumer needs?
VII. What other supply-side factors account for the success, or otherwise, of previous initiatives?
VIII. What features of previous schemes proved particularly popular/unpopular with consumers and firms and why?
IX. The role of Government and policymakers with a particular emphasis on lessons for future initiatives.
X. The interaction between "simple products" and the provision of financial advice and what are the related implications for the likely success of such products.

XI. What insights can be provided by similar initiatives in an international context and from experiences relating to basic bank accounts?

In evaluating previous “simple product” initiatives and highlighting lessons for the future, the primary concern is the degree to which such products were marketed successfully to, and taken up by, core target segments. However, the introduction of such products also has a more general impact on the wider market for financial products which may well be positive in nature. Such wider impacts are also considered in this report.

In compiling the report, a number of limitations were encountered in terms of availability of data and commentary. Firstly, by far the majority of commentary and discussion has focussed on Stakeholder pensions, rather than Stakeholder products more broadly or the impact of CAT standards. The commentary on CAT standards has been particularly limited. Given that Stakeholder pensions have been available for a longer time period than other Stakeholder products and that problems surrounding pension provision have been uppermost in the minds of policymakers and other interested parties, this is perhaps not surprising. Secondly, there appeared to be a lack of quantified objective targets against which to measure success. Finally, the data on sales figures and market penetration were less than comprehensive. However, notwithstanding these limitations, the data identified, allied with the large amount of commentary and opinion pieces, allows for reasonably robust key insights to be drawn, particularly if arguments framed with reference to Stakeholder pensions are, quite reasonably, extrapolated to cover other Stakeholder products and CAT standards.

The report proceeds as follows: In section 2, a brief synopsis of the “simple product” initiatives covered by the report is presented, whilst section 3 considers the degree to which previous initiatives have been a success. Section 4 presents an analysis of consumer factors that have impacted on previous initiatives, whilst section 5 does similar for product and industry factors. Section 6 considers the influence of regulatory factors on previous “simple product” initiatives and section 7 provides brief insights from other countries and the context of Basic Bank Accounts. Finally, in section 8, recommendations are provided.

2) Brief Synopsis of Simple Product Initiatives Covered in the Report

The main focus of the study is previous initiatives to encourage the creation and distribution of "simple products" in the financial sector, in particular CAT standards for financial products and Stakeholder products. CAT standards were a Government initiative, introduced by HM Treasury in the 1990s. CAT standards were initially devised for Individual Savings Accounts (ISAs)[1]. The role of the CAT mark was summarised as follows: [2]

"Benchmarked ISAs should always offer savers a ***reasonable*** *deal. The deal may not be the very best on the market, but offers savers products which meet-or better-the standard should not get ripped off."*

ISAs that adhered to a set of criteria specified by the Government covering charges, access and terms (hence CAT) could publicise themselves as CAT standard approved. In effect, the CAT standard became a benchmark against which firms could voluntarily measure their product specifications. Following an announcement by the Treasury in 2000, the CAT standard scheme was extended to residential mortgage products.[3]

Stakeholder pensions were introduced by the UK Government in April 2001, as a key part of the Government's pension policy.[4] Stakeholder pensions are defined contribution/money purchase schemes and they differ from standard personal pensions in that stakeholder designated pensions must meet strict criteria regarding charges, access and terms. This initially included a cap on charges of 1% per annum, relatively low minimum investment levels and free movement in and out of products and funds.

Following a review of the markets for savings and investments,[5] which noted the high degree of complexity and opacity apparent in financial services, the Stakeholder concept was extended in Spring 2005 to other products including:[6]

I. cash funds
II. medium term investment products, and
III. child trust funds (both deposit and investment variants).

At this time, the fee cap was raised from 1% to 1.5% of funds under management per annum for Stakeholder pensions and Stakeholder medium term investment products.[7] It was envisaged that Stakeholder products would be sufficiently simple, transparent and low-cost that they could be provided without the need for face-to-face personalised advice. Stakeholder products superseded CAT standards, except in the case of mortgages, where CAT standards were retained, as at that time residential mortgages were subject to separate regulatory oversight.

As both CAT standards and Stakeholder products cover similar areas, namely charges, access and terms, they could be viewed as essentially similar in nature. However, important differences have been highlighted.[8] Stakeholder products are a class of product and the standards set are compulsory for any product wishing to be designated as Stakeholder. In effect, the Stakeholder initiative represented a form of product regulation. Cat standards represent a voluntary benchmarking scheme in which it is entirely up to providers whether to design products that meet the standards specified. With both CAT standards and Stakeholder products covering similar attributes, the potential for confusion between the two is self-evident, especially as the ultimate aim of both approaches is to ensure that the customer is offered a reasonable deal.[9]

The report will also reflect briefly on “simple product” initiatives in an international context, notably the debate concerning “vanilla” products in the US and also South Africa’s experiences with CAT standards for financial products. Finally, the report will consider whether there are any pertinent lessons from the UK’s experience with Basic Bank Accounts.

3) Target Market and Evaluation of Previous Simple Product Initiatives

The primary target consumers for the "simple products" initiatives outlined above have, in various documents, been identified as: [10]

I. low to medium income consumers
II. those with little experience of financial services
III. those with limited savings and pension provision
IV. those in a position of vulnerability or weakness due to low expertise and/or a lack of interest or involvement.

The Sandler review[11] of medium to long term savings noted that lower income segments are particularly dissuaded from saving by marketplace complexity and opacity. Elsewhere, the same review notes that the economics of financial services distribution also make it difficult for "low-to-medium" income consumers to access products and advice at an acceptable cost. Other interested parties characterized the target market in terms of consumers who lack a high level of financial sophistication[12] and those who are relatively risk adverse.[13] Of course, Stakeholder products were conceived as being available to all, but in seeking to judge whether such initiatives have been a success, a key consideration is the degree to which engagement with the financial services sector and product coverage increased in the key target markets as a result of such initiatives and, if it did not, why not. Only then does the totality of pertinent lessons from previous initiatives become apparent.

Previous "simple product" initiatives undoubtedly had some positive impacts, particularly Stakeholder pensions and their effect on charges in the wider pensions market. However, evidence and commentary also highlights a number of problematic elements of previous "simple product" initiatives. Most of the evidence and commentary is focussed on experiences with Stakeholder pensions. For instance, Severn drew on the Treasury Select Committee Fifth report from 2006 to provide the following perspective on the experience of Stakeholder pensions:[14]

"In the early stages of the life of the Stakeholder pensions there were some signs of success in reaching the target market of middle earners. However, in 2003 the Department for Work and Pensions provided little evidence of take-up or interest in Stakeholder amongst middle earners who did not have an existing private

pension. Although the number of holders of Stakeholder pensions exceeded 1 million by late-2002, many of these new pension arrangements seem to have arisen from individuals switching from other schemes (notably personal pensions) and from existing Group Personal Pensions being reconstituted as Stakeholder pensions. Since 2002, the number of new contracts has declined year on year."

Charles River Associates also pondered the question of whether the introduction of Stakeholder pensions has increased the overall level of contributions, or whether the main effect has been one of substitution of Stakeholders in the place of previous Personal and Group Pensions.[15] The report acknowledged the difficulty associated with establishing definitively the amount of new business attributable to the introduction of Stakeholder pensions. It concluded that some new money may have been attracted to Stakeholder schemes, but that the net level of additional investment was relatively small.

More encouragingly, the report offered some evidence that Stakeholder pensions have appealed to the target market, which was characterised in the report as younger and lower income individuals. 35% of Stakeholder pension owners were between 25 and 34 years old, whilst only 25% of all personal pension holders being in the same age bracket. Also, 71% of Stakeholder policyholders had an income of £19,999 or less compared to only 56% of personal pension plan holders. However, as the report points out, although this level of take-up is encouraging, it does not provide evidence of additional or higher contributions. In 2003, both the Association of British Insurers and the Association of Unit Trusts and Investment Funds offered the opinion that the Government's pension initiative had failed and that Stakeholder pensions had "flopped", with fewer than 600,000 stakeholder pensions sold in the first year they were on offer.[16]

A further source[17] noted that 1 million people were contributing to a Stakeholder pension by April 2004 and that although 350,000 employers offered access to such schemes, 82% had no members. Regarding Stakeholder products more generally, in 2006 it was noted that:

"The financial services industry has largely ignored the Sandler initiative despite a high-profile marketing campaign launched by the government in April 2005."

The same source also branded efforts to persuade the financial services industry to back a suite of simple products a failure.[18] More recently, Stakeholder pensions have been characterised as "near the end of their shelf life",[19] with sales having fallen 28pc in the 12 months prior to the report. In the interests of completeness, it is worthy of note that a sophisticated econometric analysis of the Stakeholder pensions initiative[20] indicated that the introduction of Stakeholder pensions helped in offsetting a general trend of falling pension coverage and had a "non-trivial" impact on particular segments, such a women and low earners. Thus, a more positive picture is provided as to the impact of Stakeholder pensions soon after their introduction, particularly in terms of arresting the decline in pension coverage in some groups.

For CAT standards in relation to ISAs, the Investment Management Association provided some sales data in early 2004.[21] They stated that, at that time, there were 50 funds which had been CAT marked at some stage. These funds accounted for £11.6 billion under management which represented 6% of the total funds under management in the industry. Most of the CAT marked funds were either tracker (passive) funds or income funds, with only 4% being actively managed equity funds. For CAT marked mortgages the Treasury claimed some success in 2002, stating that CAT marked mortgages had helped create more straightforward offerings and had encouraged lenders to deliver fair value to consumers.[22] However, these claims were disputed by industry sources. The Council of Mortgage Lenders (CML) noted in 2003 that only 30 loans offered by twelve firms were CAT compliant by May 2003.[23] Given that at that time there were hundreds of products on offer, the coverage of CAT standards was evidently limited. In a retrospective consideration of the level of success of CAT standards for mortgages, the CML stated:[24]

"Standardised "CAT" products introduced to the UK in 2000 did not prove popular with consumers or successful for lenders."

Sales data for Stakeholder products other than pensions are harder to ascertain, not least as these products have not been afforded the prominence of Stakeholder pensions in commentary and analysis. For instance, the FSA published retail sales data in 2008[25] and in its analysis it reported separate sales figures for Stakeholder pensions and other personal pensions for the year to March 2008 (293,000 and 162,000 respectively). However, no data was provided on the breakdown between Stakeholder and other ISAs sold in the same period, with only the total figure of 537,000 given. Finally, for Child Trust Funds (CTF), introduced in 2005, it was estimated that in mid-2009 roughly half of all children eligible for a CTF had the Stakeholder variant of the product.[26] However, it should be noted that the Government's default investment strategy for those failing to use their voucher in time was a Stakeholder account and that this could account for approximately 25% of all policies opened.

In sum, the weight of evidence and opinion is that previous "simple product" initiatives had some positive impact, but have not led to the increased level of engagement and provision hoped for and anticipated. Such initiatives have done little to increase overall customer engagement with the financial services sector and have not resonated in particular with the indentified target segments. It was not possible to identify specific target metrics for policy numbers or amount of funds invested against which to measure outcomes, however, few would dispute that actual take up has, in general, not lived up to expectations. The reasons for the relative lack of success of simple product initiatives and the attendant lessons for future proposals will now be considered under the headings of consumer factors, product and industry factors and regulatory and other factors.

4) Consumer Factors

This section of the report considers research and commentary which deals specifically with the degree to which consumers have embraced "simple product" initiatives and why take up of such products was generally lower than anticipated. It is undoubtedly the case that part of the reason for the relatively low take-up of previous "simple products" is the fact that such initiates failed to resonate sufficiently with the public in general and the target segments for such initiatives in particular. A recent academic study[27] investigated Stakeholder products and their potential appeal to target segments. In the study, a representative sample were asked whether, in order to help consumers choose appropriate financial services, the Government should:

I. "set minimum standards for some financial services products sold to consumers"
II. "set standards which show when a financial service offers customers a reasonable deal"

Aggregate responses were then compared for respondents of differing expertise and experience, as well as different demographic characteristics, such as gender and income.

Average responses to the questions relating to the Government's potential role in setting and promoting minimum standards for products were reasonably supportive of such initiatives. However, more detailed analysis indicated that such initiatives were not appealing to the main target segments to the necessary degree. Those in higher income brackets (£30,000 or more) were more positive about the Government setting minimum standards and offering a reasonable deal than those from lower income categories. This is the opposite of what would have been preferred to meet the objectives of the policy in accommodating the needs of low-medium income consumers. Also, younger and older consumers were less positive than those in the "middle" age bracket of 35-54. The policy initiative outlined did not appeal particularly to those from lower social classes, which would also be desired to meet the core objective of the products on offer. The Government actions outlined also appealed significantly more to males than females. Given concerns about female participation in financial services markers, this is not an ideal finding.

The analysis also showed that those with more cumulative experience of and involvement with financial services saw more merit in the Government setting minimum standards that offer a reasonable deal and that low knowledge groups were no more positive about such initiatives than more expert consumers. These findings provide further evidence that the Stakeholder product initiative was struggling to appeal in particular to the target market identified, i.e. less experienced, less knowledgeable consumers. Related research[28] indicated that similar findings were apparent in the case of the CAT standard initiative. Overall, the research showed that "simple product" initiatives received a reasonably high level of support and that consumers were positively disposed towards some Government intervention, insights which will be welcomed by the Government and policymakers. However, the initiatives were less effective in resonating in particular with the main target consumer groups.

Conclusion: When the characteristics of "simple product" initiatives are clearly explained to consumers, there is a reasonably strong level of support and an acceptance that Government should be seeking to assist consumers in such a manner. Therefore, the Government and its agents should not be dissuaded from attempting to reinvigorate or introduce new "simple product" initiatives on account of perceived public indifference.

Conclusion: Although, generally, consumers appear reasonably well disposed towards "simple product" initiatives and a role for Government and/or policymakers in financial services markets, previous "simple product" initiatives have not caught the imagination of consumers and particularly those from the key target segments of low-to-medium income consumers and those lacking expertise, confidence, interest and involvement. This would suggest that the marketing and branding associated with any future "simple product" has to be designed and targeted more effectively than previous initiatives. More thought should be given to the branding, logos and other presentational matters associated with any future initiative, to ensure that "brand values" are clearly articulated, the associated benefits are appreciated and the products appear relevant and suitable for those in the main target markets. Especially given the current financial climate, it is unlikely that the Government will have the necessary resource to fund adequate marketing initiatives. Therefore, the financial services industry must be

fully convinced as to the merits of any proposed initiative, as only then will firms bring their considerable marketing expertise and resources to bear.

Most other available research and commentary is focussed specifically on Stakeholder pensions. For instance, further research highlights more consumer based factors which help account for the general lack of success of Stakeholder pensions. In particular, it has been suggested[29] that previous mis-selling of personal pensions in the 1980s and 1990s may have engendered a degree of scepticism on the part of consumers that may help explain the relatively poor take-up of Stakeholder pensions.

Conclusion: The collective memory of consumers concerning their previous dealings with the financial services industry means that there may well be a significant degree of scepticism which must be overcome before they become more engaged in financial services markets. Recent relatively long period of lacklustre performance of investment products have also helped tarnish the attitudes of consumers. Efforts to professionalise the market for financial advice and increase the transparency of rewards for advisers will be crucial in increasing trust and engagement and helping ensure the success of any future "simple product" initiatives.

A continuing lack of trust and a lack of perception of security in the sector are also offered as contributory factors.[30] Research using data from 2002[31] showed that levels of trust in private sector pensions were relatively low, but not significantly lower than trust in state pensions. Focus group research from the same source also indicated a low level of trust in pension providers. It also indicated that "working-class" participants had a greater propensity to trust the state, rather than private pension providers and that "middle-class" groups placed more emphasis on non-state provision, but that they preferred other forms of saving to personal pensions, as the alternatives were perceived to offer more flexibility.

Issues surrounding trust and perceived fairness are undoubtedly complex and multi-faceted. More recent research in the area,[32] shows that trust in financial services institutions is not significantly below that of comparator institutions such as supermarkets, mobile phone providers and the NHS. The research also shows that financial advisers are comfortably the most trusted type of provider and that they are perceived as treating customers more fairly than other types of institution. Consumers are also inclined to trust their own institution (e.g. the bank they use) far more than the industry in general and also perceive that they receive fairer treatment from their own institution than the industry in general. In the area of fairness in particular, consumers are relatively convinced as to the fairness of interactions and processes, but are less convinced as to the fairness of charges, terms and conditions and how relationship benefits are shared more generally.

Conclusion: Issues surrounding trust and perceived fairness obviously pose a challenge for policymakers as they seek to increase levels of engagement and provision. However, the evidence suggests that levels of trust and perceptions of fairness are perhaps not as low as often assumed, even subsequent to the financial crisis. The fact that consumers are far more inclined to trust their own provider and, in particular, financial advisers may offer opportunities. However, customers perceive that they receive less fair treatment in the area of charges, terms and conditions and other benefits. Any future "simple product" initiative must offer particular re-assurance in these areas if it is to have a substantial positive impact on engagement and provision.

5) Product and Industry Factors

In this section supply side factors which have impacted on the degree of success of "simple product" initiatives are considered. Again, the majority of analysis and commentary focuses on Stakeholder pensions.

A key issue from the outset with both CAT standards and Stakeholder pensions (and later, Stakeholder products more generally) was the area of charges and whether the cap imposed on charges for such products would allow them to be distributed and administered in a manner which was profitable for providers. Initially, charges were limited to a maximum of 1% of funds under management (the so-called 1% world), with no up-front charges or other charges levelled in the sales process and ongoing administration of the policy. Also, flexibility regarding transfers into and out of policies was required without penalty or additional cost.

Commentary from the period when the introduction of Stakeholder pensions was being debated indicates that providers were sceptical of the potential profitability of such products and were, perhaps not surprisingly, lobbying hard for a higher fee cap. Analysis[33] indicated that, even assuming the cheapest business model of no advice and internet distribution, Stakeholder pension providers would have to wait three years to recoup costs and, more generally, the prediction was that Stakeholder pensions would not be profitable until 2010. Even this relatively long payback period was based on a level of market penetration that did not subsequently materialise. The industry was characterised as "generally unconvinced" by the approach of the Government. It is worth noting that a minimum payback period of three years is especially problematic for providers if they must allow transfers out of a policy without penalty within the period, as there is no way of protecting the business from losses in such circumstances. Also, as Stakeholder pensions are aimed at less wealthy market segments, the potential for cross-selling to customers acquired through the Stakeholder pension route is limited, further reducing potential profitability. A further research paper[34] stated that it was evident that a "section of the community" (i.e. those of low incomes) was not being well served by the 1% fee cap, as it meant that they were not profitable to serve and, as a result, were being neglected by providers.

Conclusion: Given that the financial services industry is, understandably (and many would say perfectly reasonably), self-serving and is

collectively an extremely effective lobby machine, it is not surprising that there is voluminous commentary highlighting the problematic nature of the 1% fee cap. However, the importance of the fee-cap in helping explain the relative lack of success of previous "simple product" initiatives cannot be overstated. The combination of an initial 1% fee cap, free movement in and out of products without penalty and the relatively low level of funds investment by many users together represented a formidable barrier to enthusiasm from the industry for "simple products." This is particularly the case when firms continue to be free to recommend alternative products which are not fee-capped and can there offered a greatly enhanced return to manufacturers and distributors.

An issue which is related to the potential profitability of Stakeholder pensions is the degree to which they are actively marketed. When Stakeholder pensions were first introduced, there was a sharp rise in the amount of advertising spend dedicated to Stakeholder pensions, peaking in October 2001 at about £2.5 million. At this time, about £1.5 million was spent by providers on the advertising of other pensions. However, by October 2002 the advertising spend on Stakeholder pensions had tailed off to practically zero, whilst advertising spend for other persons remained at about £1 million.[35] The data offer convincing evidence that providers soon decided not to actively market Stakeholder pensions and further analysis indicates that whilst they were being marketed, Stakeholder pensions were targeted at more affluent segments. The then Chairman of Aviva UK stated that:

"*We will focus on* ***larger schemes and larger contributions****. We have not seen any significant encouragement from Government. Unless there are changes Stakeholder will not change the savings pattern in the UK.*[36]

Of course, advertising is not the only form of marketing and it is highly likely that salespeople dealing with consumers and relationship managers liaising with brokers, advisers and other distribution channels would also have pushed other pensions to a far greater degree than Stakeholders. Given the old maxim that such products are not bought but have to be sold, this would also help account for the relative lack of success of Stakeholder pensions.

Conclusion: As stated above, future "simple product" initiatives are only likely to meet with success if firms in the sector can be persuaded/motivated to market such products actively to key target segments.

As a result of the Sandler Review of the savings market, the range of Stakeholder products was increased, as explained in section two above. When these products entered the market in 2005, the fee cap for Stakeholder pensions and other Stakeholder investment products was raised to 1.5% for the first ten years, before returning to 1%. This was characterised as necessary to head off a boycott of such products and Ruth Kelly, the then Financial Secretary to the Treasury explained the rationale for the increase as follows:

"The Government has always maintained that the price cap for stakeholder products should strike a balance between the interests of consumers and the economics of the stakeholder market. The 1.5% cap for the first ten years will allow the cost of basic advice to be incorporated within the product charges, whilst maintaining excellent value for consumers.[37]

However, industry sources were not convinced that the 50% increase in fees for the first ten years would be sufficient to enhance profitability to the degree necessary. The then Director-General of the ABI stated that although the rise in fees was *"a step in the right direction"* it was still in no way a generous settlement. She had earlier lobbied hard against the proposed 1% cap:

"Even if regulatory requirements are lightened, firms and advisers will still quite rightly have to spend considerable time and resources offering the detailed advice necessary to enable customers to decide whether to buy a long-term savings product. No other country imposes a flat 1% charge on such products. Our research confirms that this would not enable firms to make a viable return on sales to customers with relatively modest incomes."[38]

Other industry sources were also sceptical. A representative of Standard Life commented that the new fee cap of 1.5% offered *"a poor deal for consumers"* (although why this was the case was not elaborated upon) and that "[*Stakeholder Products]....are unlikely to be successful with this price cap."*[39] Royal London also indicated that they did not believe that the new charging structure would cover the cost of essential advice; their Head of Corporate Affairs stated that:

"The price cap, even at 1.5% - does not allow firms to cover the cost of up-front, in-depth advice to all. Without individual advice there is a clear danger of unsuitable products being bought."[40]

Some industry sources, albeit a minority, were more positive about the 1.5% fee cap and the new Stakeholder regime. The then Chief Executive of Prudential stated that the new fee regime was *"very close to what we expected and hoped for"* and the then Chief Executive of Norwich Union Life stated:

"This is good news for the consumer as there will be more products, choice and competition in the market, good for the industry as we now have clarity and a more economic price cap, and good for government as this should help get the savings and pensions issue back on people's agenda."[41]

However, the sentiments expressed by Norwich Union and Prudential were minority opinions as evidenced by the fact that a year after the launch of what at the time were referred to as "Sandler" products, such products were seen as a disappointment. Press coverage at the time stated:

"The financial services industry has largely ignored the Sandler initiative despite a high profile marketing campaign launched by the government in April 2005."[42]

Thus, the blame for the failure of the "simple product" suite was laid firmly at the door of the industry. By May 2006, forty companies had registered an interest in offering low-cost products, but not all of these companies had yet launched products. Only a small number of firms had launched share-based products. The industry association for financial advisers, AIFA, also highlighted the lack of incentive for advisers to recommend such products due to lack of profitability:

"What has not been recognised by the Government in that financial advisers incur upfront costs when they provide basic advice. They are concerned that they will not make any profit on the business. There is nothing wrong with the products themselves. But until there is more financial education for consumers they will not sign up in sufficient numbers to make it worthwhile for consumers"[43]

Conclusion: Even with a fee cap of 1.5%, Stakeholder products are not sufficiently profitable to motivate providers or advisers to market them

enthusiastically to consumers, especially when there are alternative products that could be recommended that offer more remuneration to advisers and greater profitability for providers. At the same time, consumers do not have the knowledge, confidence or enthusiasm to seek out "simple products" on their own initiative, meaning that potential levels of business are insufficient to encourage providers to offer such products. The inter-play between distribution issues, consumer characteristics and the priorities of product providers is thus illustrated very effectively.

There is the potential for Stakeholder pensions and other Stakeholder products to have a wider positive market impact even if they have not been a resounding success in and of themselves. The Stakeholder pension provides a good example. In 1999, the Personal Investment Authority issued Regulatory Update 64 (RU 64), which was later incorporated in to FSA Conduct of Business rules. RU 64 states that where an adviser recommends a personal pension or AVC instead of a Stakeholder pension, then the adviser must write to the client to explain why the recommended product is at least as suitable as a Stakeholder variant.[44] Therefore, it is perhaps not surprising that initial analysis[45] showed that by early 2003 the introduction of Stakeholder pensions had the following impact on pension products more generally:

I. Initial charges of 5% or more in the form of a bid-offer spread disappeared for almost all schemes
II. Charges for switching between funds, which were common before the introduction of Stakeholder pensions, become far less so as they were abolished by about half of all firms.
III. Penalties for transfers between providers disappeared.

Thus, in terms of product features, the introduction of Stakeholder pensions had some hugely beneficial knock-on effects for product features in general, although the regulatory requirement to justify not recommending a Stakeholder pension was key in achieving such outcomes.

The same report also considered the impact of Stakeholder pensions on annual management charges. It concluded that the range of prices charged in the individual pensions market has reduced significantly between 1996 and 2002 and that the highest priced products had been all but eliminated and that charging structures fell to "close to the level structure of the Stakeholder pension".

However, by 2005, developments concerning charging structures in the personal pensions market were highlighted as also having some more negative impacts. For instance, the following observation was made in an FSA report considering the potential abolition of RU 64:[46]

"Firms agreed that the main reason for the decline in personal pension sales was that RU64 had in effect put a price cap on personal pension plans, which made them uneconomic to distribute. The minimum standards on stakeholder pensions, including the cap on charges, reflected the fact that they were designed to be bought without full advice, unlike individual personal pensions which had generally been (and continue to be) sold through advisory distribution channels."

This quote provides further evidence of what would generally be considered a positive impact on pricing, whilst also highlighting the attendant negative influence on market volumes. It was with the negative consequences in mind that the FSA consulted on dropping the RU 64 requirement in 2005. The FSA were concerned that the rule may have had, on balance, an adverse effect on the market *"by forcing advisers to benchmark all personal pensions against SHP's,"* meaning fewer advised sales to lower-income consumers. Ultimately, the FSA decided against scraping RU 64 after a wave of negative comments from consumer advocates and other interested parties.[47] More recently, there have been calls from industry for the FSA to scrap RU 64. Firms argue that RU 64 has effectively served its purpose, with fees for Stakeholder and non-Stakeholder pensions having moved closer together.[48] There are also questions about how RU 64 will dovetail with the Retail Distribution Review. However, the FSA have stated that they have no intention of changing the RU 64 rule and many would argue that the requirement to justify not recommending a cheap, simple product helps maintain discipline in pricing.

Recently, some large firms such as Axa have withdrawn from the Stakeholder pension market. This has led to commentary that should this trend continue, then as a result of fewer or no Stakeholder pensions being available, charges would once again begin to rise.[49]

Conclusion: Positive aspects of the Stakeholder pension regime are also apparent. In particular, the combined effect of controls on management and other charges for Stakeholder pensions and a regulatory requirement (RU 64) to justify non-recommendation of a Stakeholder pension should be recognised. There is strong evidence that this combination of factors led to a reduction in annual management charges for personal pensions, the elimination of many up-front charges in the form of a bid-offer spread and the removal of charges for fund and plan transfers. The effect was sufficiently strong to lead to concern that as advisers have to benchmark all pensions against Stakeholders, then certain low income segments of the market are effectively being excluded from the market as they cannot be served profitably.

Although the FSA was charged with looking into why simplified products were not a success by the all-party Treasury select committee, little more progress was made. Further HM Treasury initiatives aimed at reviving the market for simple products and making them more accessible were announced in 2009,[50] including a possible traffic light system which would aim to clarify the risks associated with financial products. These initiatives are yet to come to fruition, although the need for action is ever more apparent. Recently, Stakeholder pensions have been described as approaching the end of their shelf life and in danger of becoming obsolete,[51] and the Stakeholder products initiative more generally appears to have withered on the vine. Undoubtedly, one main contributory factor was the scepticism of the industry and consumer groups as to the suitability of the simplified sales process and basic advice accompanying the sale of simplified products and it is to regulatory and other factors that the report now turns.

6) Regulatory Factors

It was generally recognised that for a capped fee (even at 1.5%) to offer sufficient profitability to encourage providers to offer a suite of "simple products", then the costs of distribution and sales advice would need to be kept at a bare minimum. The general approach to the provision of advice for "simple products" has, at various times, been referred to as decision trees, guided sales, and basic advice.

The FSA's initial plans for facilitating the provision of "simple products" without the need for costly advice involved decision trees to guide potential purchasers to the correct decision for Stakeholder pensions. Perhaps predictably, the industry, and in particular advisers, were not impressed. Decision trees were characterised as a "*fudge",* as they were not suitable for those with an existing personal pension. It was also pointed out that the guidance would be limited to whether or not an individual should join a Stakeholder scheme and that further advice would be required on which scheme to join and in which funds to invest.[52] The FSA's own research showed that most investors in Stakeholder pensions felt that they needed some additional personal advice in addition to using a decision tree, although most saw merit in the decision trees and found them easy to understand.[53]

Guided self-help was also the basis of the FSA's preferred advice regime for Stakeholder products more generally. However this proposed approach met with an extremely cool reception, both from the industry and consumer advocates.[54] The Financial Services Consumer Panel stated that it envisaged *"real dangers in the stakeholder project"* and expressed concern that a simplified regime would mean that *"unsophisticated consumers may be actively pursued and sales forces given sales targets that will encourage poor selling practices."* The Consumers' Association described the guided self-help approach as a *"non-starter"* concluding *"We don't think that the FSA's approach will provide a sufficient bulwark against mis-selling."* To add to the pressure on the FSA and the Government, the National Consumer Council also forcefully expressed its opinion; *"Lighter regulation of selling would be more palatable if low-income consumers had access to the face-to-face general financial advice they need. Little tangible progress has been made to fund and deliver this much-needed essential service."* Industry sources also expressed concern about the proposed regime. The Financial Services Practitioner Panel stated that it was extremely concerned that the guided self-help concept could leave firms vulnerable to complaints of mis-selling from consumers even if they followed the recommended sales process. Overall, it is apparent that many parties were extremely sceptical from the outset as to the wisdom of relying primarily on guided self-help in the sale and distribution of "simplified products". However, in many cases, such scepticism and negative commentary was not supported by objective evidence to back up such claims.

Conclusion: The decision tree approach, which effectively leaves consumers to guide themselves to the right outcome without any tailored, personalised advice, was supported by research for the FSA and was seen as offering a cost-effective methodology for giving advice on Stakeholder products. However, decision trees were subject to strong criticism from firms in the industry and consumer advocates, leaving the FSA isolated and with very little support for its preferred approach. There is a strong argument that at the point the FSA backed away from its plans to rely mainly on guided sales, the Stakeholder product initiative was doomed to fail. Guided sales was arguably the only advice regime for which the costs were low enough to mean that Stakeholder products, given the charge cap, were profitable enough for the industry to be interested in providing them.

Although decision trees continue to be available for Stakeholder pensions as an aid to guided self help,[55] in the main the guided self-help approach has been superseded for Stakeholder products in general by the advent of "Basic Advice." Basic Advice is distinguished from full advice in that only basic advice limited to a specific range of products (Stakeholders) can be given, the degree to which firms must investigate consumer needs is limited to finding out opinions on broad issues such as risk, salespeople giving basic advice are not required to hold the same level of qualification and sales interviews are largely scripted.[56] Thus, with Stakeholder products, the approach was, and remains, largely to switch from the regulation of advice and distribution to regulation of the product itself. However, Basic Advice still represents a more costly method of selling and distributing "simplified products" and the change in emphasis from guided self-help to Basic Advice when Stakeholder products were launched undoubtedly exacerbated the problems of lack of profitability and the related lack of industry enthusiasm discussed in section 5 above.

Proposals for Basic Advice also met with a muted response[57], with Legal and General pointing out *"It is difficult at this stage to see how the proposals on the "Basic Advice" regime will simplify the advisory process."* Indicating that companies were less than clear as to how basic advice would differ from normal advice. The prevailing view appeared to be that although Basic Advice would be an abbreviated from of advice, it was unclear how it would enable firms to reduce costs sufficiently to make "simple products" a viable proposition. It is interesting to note that even at this stage companies were calling for risk ratings to be attached to products to assist consumers and that MPs were expressing interest in a traffic-light type system to classify risk levels of products.[58]

Conclusion: Arguably, the key distinctions between basic advice and full advice were never entirely clear to firms and such a situation continues to prevail. Whilst it may be relatively straightforward to conceptualise Basic Advice and distinguish it in theory, explaining to consumers what they can and can't expect from Basic Advice is far more problematic in practice.

The FSA itself published a detailed post-implementation review of the Basic Advice regime.[59] The FSA stated that the maximum size of the market for Basic Advice is 16.5 million UK adults, of whom 6.5 million already owned an equity or related product. However, more detailed analysis of those who were predicted to own equity-based products but do not reduced the true estimate of the size of the Basic Advice market to approximately 1.5 million consumers, of whom 1 million were in the core target segment of low-to-medium income individuals. However, many of these potential users may have insufficient disposable income to facilitate saving. Research on demand-side factors indicated that those who used basic advice generally found it a simple and straightforward process which was clear and which enabled consumers to make informed decisions in which they had confidence. Consumers' choice of adviser was not influenced by the availability of Basic Advice, being based instead on factors such as existing relationship and recommendation. Users of Basic Advice had no particular issue with the limited range of products on offer but many were unaware of the price-cap and when informed of it they stated that other factors, such as strength of relationship with the adviser, were more important. In summary, although consumers did not actively seek out Basic Advice, when they received it they were generally satisfied and felt they had been well advised. Therefore, the main problems on the demand-side are a lack of awareness and a lack of perceived importance of Basic Advice.

Conclusion: Consumers appeared generally lacking in awareness of Basic Advice and, although they quite valued it when they received it, other factors continue to be viewed as more important, such as the perceived strength of relationship with the adviser.

On the supply-side, the number of firms offering Basic Advice was lower than had been predicted. 180 firms had registered to give Basic Advice as at December 2006 but *"only a handful"* had sold any Stakeholder products through Basic Advice in the first half of 2007. Many appear to have registered to give Basic Advice as a precaution as it did not cost anything to do so, rather than due to an intention to start offering such advice imminently. Firms who had trialled Basic Advice were generally put off by lack of interest and disappointing sales figures. However, these firms were vastly outnumbered but those who did not offer and have no plans to offer Basic Advice. As the report states: [60]

"During the course of our review, we spoke to a number of firms who, for various reasons, were unlikely to offer Basic Advice in its current form. It is our understanding that following these discussions none of the major banks, building societies, bancassurers or insurance firms currently offer Basic Advice, or are likely to offer it in the foreseeable future."

The report continues by detailing the main reasons why firms have chosen not to offer Basic Advice:

I. The charge cap on Stakeholder products means that such products are not economic to manufacture and/or distribute.

II. Firms are concerned that complaints against them will be judged against the standard pertaining to full advice. This risk has to be judged in the light of limited reward as per point I.

III. The limited range of products may not cover all of those that may be required by the target audience.

IV. Scripted questions mean an inflexible and stilted approach.

V. Lack of demand and low awareness mean perceived limited potential for Basic Advice.

Conclusion: The Basic Advice regime which accompanied the Stakeholder product initiative received extremely limited backing from firms in the industry. As the Basic Advice process was to be the key channel for the distribution of Stakeholder products, then the limited offering of such advice is a major contributory factor to the relative failure of the Stakeholder products initiative. The fee cap and associated lack of profitability meant that firms showed limited willingness to work with policymakers to overcome other factors. Without such a fee cap, the development of a workable basic advice regime would have been far more likely.

Going forward, the regime of Basic Advice has to be reconciled with new arrangements which will result from the Retail Distribution Review (RDR). The core objective of the RDR is to tackle the underlying structural issues in retail financial services markets which continue to cause problems for consumers and how the market operates. The most fundamental measures required are:[61]

I. To improve the clarity with which firms describe products and services to customers
II. To ensure that outcomes for consumers and the products they are sold are not distorted by commission bias on the part of the adviser
III. To professionalise the standard of investment advisers

Definitive FSA policy in the first two of these areas was published in March 2010.[62] The outcomes of the RDR will change fundamentally remuneration processes in the market for financial advice, as well as potential access to affordable independent advice for many. It is essential that a suitable process for delivering basic advice on "simple products" is incorporated into the post-RDR distribution landscape.

In addition, discussions regarding the provision of generic financial advice and related pilot scheme resulted in the launch of a National Financial Advice Service, initially funded by the Government and the FSA, under the name Moneymadeclear.[63] Moneymadeclear now falls under the remit of the newly established Consumer Financial Education Body. Generic advice is available via the Moneymadeclear website, a telephone helpline and face-to-face from certain partner organisations. The Moneymadeclear service promises "*no selling, no jargon, just the facts*"[64] and provides generic advice, various calculators, comparison tables and jargon busters. It does not recommend specific products, although given the potential reach of the service it would be an ideal opportunity to steer people in the direction of "simple products", notwithstanding the fact that personalised advice is not given via this channel. Perhaps consideration could be given to enhancing the various calculators on the site and a providing guided sales processes which culminates, where appropriate, in the provision of information on specific "simple products" or classes of "simple products".

Conclusion: As the related issues of provision of, and access to, advice have been amongst the key factors in determining the success, or otherwise, of previous "simple product" initiatives, it is apparent that there are a number of interdependencies with the RDR. Therefore, any recommendation as to how to improve the nature of Basic Advice or offer an alternative source of advice in the future must be made with reference to, and be complementary with, the latest developments in the approach adopted under the RDR. Consideration should also be given to whether the Moneymadeclear generic advice service can incorporate the recommendation of suitable "simple products" as part of the process, perhaps incorporating an enhanced guided sales approach.

7) Other Insights

In this section, insights from an international context are considered briefly. In addition, experiences with Basic Bank Accounts are reviewed to establish whether there are any lessons for "simple products".

In the international context, there has been much discussion of "vanilla products" in the US. This has been a key element of the Obama administration's plan to protect consumers of financial services from poor deals by mandating that firms offer simple products for mortgages, credit cards and other financial products.[65] It has been suggested that simple products should be easier to compare and much of the debate seems to have centred on mortgage and credit products, which is perhaps not surprising given the recent sub-prime crisis in the US. There have been calls to mandate that firms sell "vanilla products" and there have also been proposals that a consumer protection agency could impose strong warning labels on "non-vanilla products" coupled with financial experience questionnaires and customer opt-ins.[66]

In the US, the financial services industry has been lobbying furiously against the proposals to introduce "vanilla products". Firms point to a potentially drastic impact on their profitability and claim that, in terms of mortgage products at least, most products already tend towards being vanilla in essence.[67] Also, the regulated and top-down approach of the "vanilla products" initiative is not easily reconciled with the general suspicion of "big Government" apparent in the U.S. Recent commentary suggests that:[68]

"The (vanilla product) proposal was also expected to fall flat in the Senate, where conservative Democrats and Republicans say they are concerned it would give the Government too much control in the marketplace and would limit innovation."

The following quote from a leading Republican Senator on the Senate Banking Committee captures the main objection of many:[69]

"Implied in this belief is the notion that some people, such as Government bureaucrats, can make informed decisions about the value of products and services while others, such as the American consumer, cannot."

It is perhaps not surprising that, at present, proposals for "vanilla products" are stalled and show little sign of coming to fruition.

Conclusion: The experiences of policymakers in the US provide further evidence of the difficulty of championing initiatives that do not have the backing of the industry sector. Claims that such interventions will limit innovation are often made by the industry. However, hard evidence to back up such claims is not normally provided and it is questionable whether innovation is unquestionably a positive development in markets which, many would argue, already have too many over-complicated and opaque products. The proposal that non-vanilla products should carry strong warning labels is worthy of consideration.

In South Africa, the Government looked to the UK experience with CAT standards and recommended a set of access standards which set out criteria related to appropriateness, affordability and accessibility.[70] In South Africa, there is a Financial Sector Charter[71] which covers all major types of financial services institutions. The Charter includes criteria covering affordability, value for money and fair terms and Government sources state that the approach is similar to that in the UK with CAT standards.[72] The social and economic conditions in South Africa are, self-evidently, quite different to those in the UK and the Charter was part of a broader programme to help bring about black economic empowerment in the post-apartheid era. As such, lessons for the UK context are limited, with the Charter being concerned primarily with issues such as housing finance, share ownership and broader financial inclusion and empowerment.

Conclusion: It is encouraging that other countries have taken inspiration from attempts in the UK to champion "simple-products" in financial services, although the economic and social landscape in South Africa is sufficiently different to make it difficult to translate lessons and insights directly to the UK.

Basic Bank Accounts (BBA) were launched in 2003 to combat financial exclusion which was posited to be contributing to a wider social exclusion for certain consumer segments.[73] There are some parallels between "simple product" initiatives and the BBA, not least the fact that both were launched in the face of industry scepticism and reluctance. However, BBAs are aimed at marginalised consumer segments who in the main would not have sufficient funds to invest in pensions and other equity based products. The prime objective of the BBA is to create universal banking, as transaction-banking services are seen as essential for participation in society and the economy more broadly. In essence, the starting point is that a basic service is better than no service and that banks have an ethical obligation to serve all sections of the community. BBAs have limited functionality compared to standard bank accounts and are viewed very much as a product offering only the most elementary of features. They are not a "mass-market" product and as such they are not particularly comparable to "simple products", as the latter would ideally be suitable for the majority of consumers. The BBA was born out of a compromise between the Government and industry in relation to discussion of a Universal Banking Obligation, which did not come to fruition, but which resulted in many major financial institutions voluntarily offering the BBA and reference to the BBA in the Banking Code.[74]

Conclusion: The BBA is a product targeted at the marginalised, rather than the mass-market, and as a result pertinent lessons for future "simple-product" initiatives are limited. The use of the Banking Code to encourage institutions to offer BBAs is perhaps the main point worthy of note.

8) Summary of Insights and Recommendations

- **When the characteristics of "simple product" initiatives are clearly explained to consumers, there is a reasonably strong level of support and an acceptance that Government should be seeking to assist consumers in such a manner. Therefore, the Government and policymakers should not be dissuaded from attempting to reinvigorate or introduce new "simple product" initiatives on account of perceived public indifference.**

- **Greater imagination should be shown in order to catch the attention of consumers generally and particularly those from key target segments. The marketing and branding associated with any future "simple product" approach should be designed and targeted more effectively than previous initiatives. More thought should be given to the branding, logos and other presentational matters associated with any future initiative, to ensure that "brand values" are clearly articulated, the associated benefits are appreciated and the products appear relevant and suitable for those in the main target markets.**

- **Given the current financial climate, it is unlikely that the Government will have the necessary resources to fund adequate marketing initiatives for future "simple products". Therefore, it would be helpful if the financial services industry was fully convinced as to the merits of any proposed initiative, as only then will firms bring their considerable marketing expertise and resources to bear.**

- **Efforts to professionalise the market for financial advice and increase the transparency of rewards for advisers will be important in increasing trust and engagement in financial services, thus helping to ensure the success of any future "simple product" initiatives if sold through regulated advice.**

- **Evidence suggests that levels of trust and perceptions of fairness are perhaps not as low as often assumed. However, customers perceive that they receive relatively less fair treatment in the**

areas of charges, terms and conditions and other benefits. Any future "simple product" initiative must offer particular re-assurance in these areas if it is likely to have a substantial positive impact on levels of engagement and provision.

- **The importance of the fee-cap in helping explain the relative lack of success of previous product initiatives cannot be overstated, at least according to industry commentators. The combination of an initial 1% fee cap, free movement in and out of products without penalty and the relatively low level of funds invested by many users together represented a formidable barrier to enthusiasm from the industry for "simple products." This is particularly the case when firms continue to be free to recommend alternative products which are not fee-capped and can there offered a greatly enhanced return to providers and advisers. It is recommended that if future "simple product" initiatives incorporate a fee cap, then such a cap must be set at a level which will allow firms to derive reasonable profitability from the provision of such products.**

- **With regard to the question of what level of fee cap may provide reasonable profitability, it should be noted that even a fee cap of 1.5% was not sufficient to make Stakeholder products profitable enough to motivate providers or advisers to market them enthusiastically to consumers. This was especially the case when there were alternative products that could be recommended that offer more remuneration to advisers and greater profitability for providers. At the same time, consumers do not have the knowledge, confidence or enthusiasm to seek out "simple products" on their own initiative, meaning that potential levels of business are insufficient to encourage providers to offer such products. The inter-play between distribution issues, consumer characteristics and the priorities of product providers is thus illustrated very effectively.**

- **Positive aspects of the Stakeholder pension regime in particular are also apparent. The combined effect of controls on management and other charges for Stakeholder pensions and a regulatory requirement (RU 64) to justify non-recommendation of a**

Stakeholder pension should be recognised. It is recommended that a regulatory requirement similar to RU 64 is considered for all products covered by any future "simple product" initiative. This will not only focus the minds of providers and advisers, but is likely also have a wider beneficial market impact on charges and product features. Provided any fee-cap is set at a level generally acceptable to the industry, then increased financial exclusion from such markets should not be an issue.

- **A guided sales approach to the distribution of "simple products" should be given serious consideration as part of any future "simple products" approach and would ideally be incorporated into the Moneymadeclear generic financial advice service.**

- **If there is to be a form of "Basic Advice" as part of any future initiative, the difference between this level of advice and full advice has to be made entirely clear. Consumers must be in no doubt what they can and cannot expect and firms must be confident that they will not be held to account as if they were giving full advice.**

- **As the related issues of provision of, and access to, advice have been amongst the key factors in determining the success, or otherwise, of previous "simple product" initiatives, it is apparent that there are a number of interdependencies with the RDR. Therefore, any recommendation as to how to improve the nature of Basic Advice or offer an alternative source of advice in the future must be made with reference to, and be complementary with, the latest developments in the approach adopted under the RDR. Consideration should also be given to whether the Moneymadeclear generic advice service can incorporate the recommendation of suitable "simple products" as part of the process; perhaps incorporating an enhanced guided sales approach, as recommended above.**

- **The use of a code similar to the Banking Code, or a financial sector charter as used in South Africa could be considered to encourage**

institutions to participate fully in any future "simple-product" initiative.

- **No strong evidence could be found as to whether the product regulation approach or voluntary standards approach has been more successful in increasing engagement and provision. Adopting one or other of the approaches, rather than a combination of both, avoids potential confusion. The voluntary standards approach is likely to be viewed as less draconian by firms and could be complemented by mandated strong product warnings for products that don't meet the necessary standards. Such an approach could be coupled with a requirement to justify provision/recommendation of a non-standards assured product, along the lines of RU 64.**

Appendix: Methodology

Sources of Information

The first main methodological challenge was to ensure that all potential sources of existing literature, research findings and commentary were searched in a systematic manner. The majority of sources consisted of commentary and opinion pieces. Notwithstanding this observation, it is essential that consideration is given to sources of literature and information and search strategies to ensure that all relevant research is identified.

To find previous relevant academic studies the following sources of information were used:

- The EBSCO Business Source Premier Research Database, which includes electronic access to a large number of relevant journals
- The ABI Inform Research Database, which includes electronic access to a large number of relevant journals
- The EconLit Research Database which includes electronic access to more specialist economics literature
- Academic and related sources such as the Financial Services Research Forum and Personal Finance Research Centre at the University of Bristol
- The researcher's own previously published academic research and research reports, particularly those written for the Financial Services Research Forum, which are directly relevant to the main objectives of the study.

For these sources, the search strategy employed was a number of keyword combinations under the advanced search option of the relevant database. In addition, a "snowballing" technique was used, where bibliographies from recent and seminal articles are analysed to identify further relevant literature.

In order to identify relevant literature from the policy and related domain, the following sources were consulted:

- The publications area of the Financial Services Authority website, which provides full details and downloadable versions of relevant research reports
- The website of other government departments, government agencies and policy related bodies such as: HM Treasury, the Financial Services Consumer Panel, The Consumer's Association/Which?, The National Consumer Council etc
- The websites of industry trade associations
- The website of the Financial Services Research Forum, an industry sponsored independent body which funds research projects by academics and others.

Assessment Strategy

The other main methodological challenge was to assess the relevant material found in order to judge the quality of the contribution and/or the validity and reliability of commentary and/or data analysis contained therein.

Considerations for academic sources reviewed included:

- The general standing of the piece, as judged by factors such as citation history, the quality of the journal in which the piece was published and the reputation of the author(s)

- The academic pedigree of the piece, as judged by the ability of the author(s) to cite relevant key texts and to root their work in appropriate theories and concepts.

For empirical sources from the academic and policymaking domains, the following were considered:

- The strength of the narrative and the logic of the arguments and analysis contained within the paper.
- The appropriateness and robustness of any empirical element of the research, including sampling, measurement and analysis.
- The potential generalisability and transferability of results from a particular context to financial products in general.
- Discussion of the limitations of the approach adopted.
- The general credibility, coherence and contribution of the piece.

For commentary, opinion pieces and other contributions the following were considered:

- The objectiveness, or otherwise, of the source.
- The logic and consistency of the arguments and opinions provided.
- The degree to which opinions and claims are supported by robust and impartial evidence and data.
- The general credibility, coherence and contribution of the piece.

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