



HM TREASURY

Simple financial products:

a summary of consultation responses

October 2011



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Foreword

For many consumers the financial services market is a confusing, often intimidating place. Whilst consumers want to compare different products, a bewildering array of choice can be a barrier not an incentive to act. The Government wants to ensure that all consumers are equipped to navigate the financial services market with increased confidence and able to take responsibility for their financial future.

We have already taken some key steps to achieving this. Our programme of financial regulatory reform will create the Financial Conduct Authority, with a remit to give consumers confidence in financial services and to ensure robust, fair and proportionate consumer protection. In April 2011 the Money Advice Service was launched to offer free and impartial guidance on financial matters. Its financial health check helps families identify their individual financial needs and find out where to get further advice.

Improved consumer protection and capability, whilst necessary, are not enough in themselves to help consumers to plan their family's needs with confidence. That is why we published a consultation in December 2010 setting out ideas for a new suite of simple financial products to help those consumers overwhelmed by choice to take their first steps into the savings and protection market.

This document summarises responses to that consultation. Respondents made many helpful and persuasive comments and suggestions. The Government has listened to these views and following wide ranging discussions with financial services firms, consumer groups and others, we are now announcing next steps. A steering group will be established to draw up the governance arrangements for simple products and develop a range of products that are both appealing to consumers and a viable commercial proposition for providers. This group will be made up of representatives from consumer organisations, industry and trade bodies and I am delighted that Carol Sergeant has agreed to chair it.

Collaboration between consumer representatives and industry to develop a new suite of simple financial products offers a real opportunity for greater engagement in the financial services sector and will encourage those who will benefit most to plan for their financial future for the first time. I very much look forward to seeing simple products progress to the next stage.



Mark Hoban

Financial Secretary to the Treasury

October 2011

1

Introduction

Purpose of this document

1.1 This document summarises responses submitted to the Treasury's December 2010 consultation, *Simple financial products: a consultation*. It is not intended to set out a Government response to the consultation submissions.

Background

1.2 The Government announced in July 2010 that it wanted to see a new range of simple financial products launched. These would help people take responsibility for their finances and to make better choices. Effective competition relies on consumers having the right information and being able to understand that information, but complexities in the current market are hindering consumers from entering the market or making the best choices. Simple products would help consumers enter and navigate the market by providing an option for a default purchase or as a benchmark for comparing other products.

1.3 The Government published *Simple financial products: a consultation* on 14 December 2010, which closed 25 March 2011. The consultation set out the Government's initial suggestions for how a new range of simple products could be developed and asked the industry to lead in taking this work forward.

1.4 The consultation set out three objectives for simple financial products:

- to help ensure that people understand the products they need;
- to help consumers make better choices; and,
- to encourage competition in the market.

Responses to the consultation

1.5 The Government received 75 responses to the consultation from a wide range of organisations and individuals (see Annex A for details). In addition, three workshops were held with representatives from consumer groups, banks, building societies, insurers, cooperatives, think tanks, regulators, and independent commentators, to discuss the issues in depth. This document summarises formal responses to the consultation but does not seek to capture all of the points raised through the informal process, which, in addition to workshops, included numerous bilateral discussions and participation by officials in seminars and conferences. These events and discussions have assisted in the interpretation of formal responses and in formulating next steps for the simple products development process.

1.6 The next chapter provides a summary of responses to each consultation question. While a number of themes emerged, there was no strong consensus among representatives of particular industries or sectors; nor were there clear consistent views from consumer groups and trade associations. Responses are therefore reported at a general level to avoid mischaracterising the response of any one sector or group of stakeholders.

Next steps

1.7 Alongside publication of this summary of consultation responses and in light of the general support for industry and consumer group leadership of this initiative, the Government is announcing the establishment of a steering group, chaired by Carol Sergeant, to take forward further work on the development of simple products.

2

Summary of responses

2.1 This chapter presents a summary of responses to each question asked in the simple financial products consultation document.

Question 1: General comments on the Government's aims for simple financial products

2.2 Respondents welcomed the vision and objectives for simple products set out in the consultation. However some queried specific aspects of the consultation or sought further clarification. Several of the consultation responses put forward suggestions for clarifying or reframing the objectives, while others questioned if the objectives matched the policy vision or if it would be possible to achieve all three objectives through simple products.

2.3 The objective to “help consumers understand the products that they need” raised the most queries; several respondents felt this objective was difficult to understand, and could potentially be delivered through financial education alone. There were also concerns that simple products may not help consumers to consider whether they have needs beyond the range of savings and protection products that was suggested in the consultation (for example, if the consumer should consider investment products or paying down debt).

2.4 A small number proposed modifications to the objectives, mainly condensing the three objectives into one objective such as ‘making products easy to understand and helping consumers compare’. Some respondents suggested additional objectives: ‘increasing take up of certain product categories’; ‘improving the quality [of products]’; and ‘improving long term resilience of products’.

2.5 Some respondents sought further clarity from Government over the simple product proposals. This included further detail on: market failure analysis; the target market; success measures; and market impact. A few respondents, mainly banks, queried whether simple products need to be entirely new products or if they could be rebadged or redesigned existing products.

2.6 Many respondents raised the question of what exactly ‘simple’ meant. ‘Simple’, for some, meant a product with very basic functionality, while for others it was a comprehensive product, for example a protection product with no exclusions. ‘Simple’ could also refer to the outcomes delivered by products and whether these are easy to understand. Interpretation could also imply a simple purchasing process. A small number of respondents, mainly insurers, raised concerns about whether it would be possible to have a ‘one size fits all’ definition of simplicity across different savings and protection product categories with differing core characteristics.

2.7 Many respondents felt that it was important to consider the links to other work streams to ensure consistency, and also to recognise that other initiatives could also contribute to the objectives. Suggestions included:

- ensuring consumers have access to products and to different forms of advice, particularly the development of simplified advice;

- financial education to inform consumers' awareness of their needs and products they should consider; and,
- comparison tables to help consumers compare products.

Respondents also noted that various EU proposals, including the Markets in Financial Instruments Directive (MiFID) and Packaged Retail Investment Products Directive (PRIPs) could have an impact.

2.8 A small number of respondents felt that the FSA's Retail Distribution Review (RDR), and forthcoming guidance on simplified advice, together with financial education and capability would deliver on the objectives set out in the consultation without the need to develop simple financial products.

Question 2: Should this work be led by industry and consumer groups and not Government?

2.9 There was general agreement that industry is best placed to design products. However the majority of respondents also felt that all stakeholders with an interest in this work should be involved to some extent. There were varying views on the role Government should play in the process.

2.10 Some felt that Government should be actively involved in the process and in facilitating the discussion. These respondents, particularly consumer groups, felt that Government involvement would be critical to ensure that the process progresses and simple products develop as envisaged. Government involvement was also seen as important in ensuring that development is coordinated with other work streams, including relevant European and domestic policies.

2.11 A smaller number felt that Government should take a "hands-off" approach. However, they still felt that Government should be involved in relevant parts of the discussion and facilitate removal of any barriers to development.

2.12 There were a small number of responses suggesting other stakeholders that should be involved or could lead the work, in particular the Financial Conduct Authority, trade bodies and the Money Advice Service.

Question 3: How can industry and Government ensure a voluntary set of standards offers sufficient protection for consumers?

2.13 Respondents' views about voluntary standards were polarised.

2.14 Some respondents felt that in the context of existing FSA Treating Customers Fairly (TCF) rules and the more strongly interventionist approach suggested by the recent FSA product intervention discussion paper, there was no need for any further consumer protection attached to simple products.

2.15 Other respondents felt that a voluntary code of conduct had worked well in the past and should be used for simple products. This could potentially involve a clear set of minimum standards that have to be met for products to be considered "simple", to be regularly updated and clearly defined. Respondents referred to the Association of British Insurers' (ABI) work on critical illness standards and the Lending Code as good examples of voluntary codes. These were seen as potentially quicker to deliver than regulation and would also enjoy an increased chance of success because it would require active industry participation.

2.16 A small number did not think voluntary standards were appropriate, either because they would be unnecessary if products are truly simple, or that they will provide insufficient

protection for consumers. Some suggested that the FSA (and in future the Financial Conduct Authority) should police any code of conduct or set of standards.

2.17 The importance of signing all key stakeholders up to the vision and standards for simple products to ensure products were developed in the best way for consumers was emphasised by a number of respondents. A small number also highlighted that trust in financial services is currently low and therefore any approach adopted would need to build credibility with consumers. Including Government, the FSA, the Financial Ombudsman Service and consumer groups in discussions was suggested as a means to achieve this.

2.18 A few respondents felt that part of the role of simple products should be to give consumers the tools to hold firms to account, by making the literature as transparent and easy to compare as possible, and by publishing claims rates and complaints figures for the products. A logo that endorsed the quality of the products and that could be removed for non-compliance was suggested by a few respondents to help protect consumers.

Question 4: Are there any reasons that simple products should have price caps or other standardised pricing features?

2.19 In line with the consultation's starting proposition that simple products should not be subject to price caps, the majority of responses suggested that these would be unnecessary and undesirable. They gave a variety of reasons:

- that the free market should determine prices and competition between providers will help keep prices low;
- price caps could deter some providers from offering simple products if sufficient margins on each product could not be achieved;
- simple products may not be the lowest priced product on the market: for example, a fully comprehensive (but simple) insurance product would be expensive compared to a basic product;
- price caps may focus consumers' attention solely on price, rather than the full product package;
- not setting price constraints allows products to be tailored to the individual.

2.20 However, most respondents agreed that the product should help consumers compare products on price. Suggestions for achieving this included standardising the shape, style and type of charges and making pricing transparent and comparable. A small number of respondents felt that it is not possible to standardise prices at all.

2.21 A minority of responses, including some consumer groups, suggested that simple products should have price caps or a cap on how much price variance is allowed. They suggested that consumers do not necessarily have pricing 'norms' to help them understand if they are getting a good deal and price structuring can therefore exploit consumer weaknesses. These respondents felt a price cap would help increase consumer trust in the products. One respondent suggested the products could have a value for money assessment as part of the simple products certification.

Question 5: How could simple products be used as a benchmark or a comparator? Is there a case to support this with regulation, as with the RU64 rule?

2.22 This question provoked strong responses, reflecting that discussion in the consultation document had not made sufficiently clear that the Government was not proposing regulation to

achieve benchmarking benefits, but informal methods to achieve similar benefits. A large number of responses felt strongly that regulation similar to RU64 was not needed. They questioned why rules around the advice process would be needed if products were available on an execution only basis as the consultation stated. Some concerns were raised that forcing a comparison may encourage consumers to not pick the most appropriate product, especially if they were encouraged to compare on price alone.

2.23 Concerns were also raised by respondents about the cost of additional regulation. They felt that any additional costs may put firms off supplying these products and that there was already sufficient regulation around sales. These respondents believed that competition would keep prices down.

2.24 Other respondents felt if the products were designed to encourage comparison, consumers will use them for this purpose, without the need for regulation. Suggestions for how to encourage consumers to compare included: establishing simple products as a baseline; working with comparison sites to establish how consumers use comparators; having a recognisable, trusted kitemark/brand (similar to the ABTA travel code); using a standardised format to aid comparisons; and encouraging firms to signpost customers to simple products.

2.25 A minority of respondents, principally consumer groups, supported regulation to help encourage benchmarking. They felt that this would help raise awareness of simple products and would be beneficial for consumer protection as consumers would feel reassured in their choice of products.

Question 6: Are there any groups in particular that simple products should be targeting? If so what implications would this have for the development and promotion of simple products?

2.26 Having a broad focus on the mass market was generally supported as the right approach across consultation responses. Most respondents agreed that many different groups could benefit from simple products, and that specifically targeting one group may reduce the number of people who benefit. A specific focus on one particular group could also limit the potential market size for firms. A number of responses stated that the design of simple products would make them more or less appealing to certain groups.

2.27 Within the broad term 'mass market', respondents mentioned a number of clear groups who could benefit most from simple products. Respondents indicated that these groups are not necessarily homogenous. For example those who do not save, or do not save enough, can span income and age brackets. These groups included:

- low and middle income consumers;
- those who are 'un' or 'under' saved/protected;
- those who do not have access to financial advice;
- young people; and
- those with little financial knowledge.

2.28 A small minority, mainly from consumer groups, felt that simple products should be explicitly focused on those who are financially vulnerable or financially excluded.

2.29 Nearly all respondents who answered on what the implications of targeting would be focused on the distribution channel. They felt that the target market and the sales/distribution process needed to be closely linked, as the sales channel impacts on who purchases the product (and vice versa). For example, not having a face-to-face distribution channel may restrict access

for elderly people. Equally if simple products were sold through simplified advice, the Money Advice Service or the workplace, the design of simple products would need to consider the target market for these distribution channels.

2.30 Several responses raised concerns that a mass market approach may lead consumers to think that these are 'one size fits all' products, rather than considering if the products are appropriate for the individual. These responses suggested a need to flag during the distribution process that simple products may not be appropriate for everyone. Two responses suggested that further customer research was needed to understand who would be most attracted to these products. This research could also examine why stakeholder and CAT (charges, access, terms) standard products did not appeal to the target market, and why ISAs do.

Question 7: Is it practical or desirable to have a range of completely standardised products? Is standardisation more practical for some products than others?

2.31 There was no consensus from stakeholders on this question, with responses evenly split. The widely differing responses could in part be attributed to varying interpretations of standardisation and what could be standardised. Suggestions for which components of products to standardise included:

- product features;
- terms and conditions;
- access terms;
- service levels, including complaints procedures;
- prices and terminology;
- minimum and maximum number of product features; and
- transferability between providers.

2.32 Some responses suggested that standardisation would be essential to force firms to compete on what these respondents saw as the 'right' features: brand, price and service.

2.33 Some felt that a level of standardisation would be possible but that complete standardisation would not help consumers to differentiate between products. They suggested that too much standardisation would lead to competition principally on price, which would benefit the largest providers.

2.34 Some respondents felt that standardisation of products was not the right approach. These respondents felt that products should be tailored to the individual and that standardisation would remove choice from individuals, cost more and prevent the industry from innovating. They argued that it may be difficult for consumers to make a choice if products all appeared identical. It was suggested that standardisation may be beneficial in the short term to help establish a simple products brand, but not for the medium to long term.

2.35 Some respondents, principally insurers, felt that standards would need to be different across different product categories, and that it may be easier to achieve standardisation in some categories rather than others.

Question 8: Beyond standardisation what other measures could be used to help improve consumer understanding of product features?

2.36 Consultation responses proposed a number of further suggestions for helping to improve consumer understanding.

2.37 Improving disclosure requirements was the most frequent suggestion. A number of different ways to achieve this were proposed:

- making disclosure comparable (for example through summary boxes);
- providing more concise information. Respondents from the industry suggested that regulation is forcing excessively lengthy disclosure requirements;
- ensuring consistent terminology and product names and not using jargon. Respondents felt that often identical features can be given different names, and that standardising them would aid consumer understanding.

2.38 The role of education in consumer understanding was also frequently mentioned, including the work of Money Advice Service and its financial health check, and financial education in schools.

2.39 A smaller number of responses suggested that more could be done concerning development of distribution channels, including access to advice and brokers, and work with comparison sites. A small number felt that the distribution process could include prompts to check consumers' understanding before final purchase.

2.40 Less frequently mentioned suggestions included:

- checklists for consumers around features;
- 'mystery shopping' of product providers; and
- branding or advertising measures.

Question 9: Should someone police the standardisation of products?

2.41 The majority of respondents felt that someone should "police" simple financial products. However, there was no consensus on whether this should be through self-policing by the industry or by an external body or regulator.

2.42 Some suggested that firms should police themselves through a voluntary code, similar to the Lending Code. It was suggested that firms would report other firms which were not meeting the required standards to protect the brand. A small number of respondents expressed concerns that this approach did not provide enough protection for consumers. Others suggested that an external body should police simple products. The FSA was most frequently mentioned and some respondents felt that this function could be fulfilled as part of the FSA's current regulatory observation brief. A smaller number felt that an independent body should be responsible, which would need to build trust with consumers.

2.43 A small minority disagreed with policing of simple financial products. This view was generally expressed by respondents who disagreed more broadly with product standardisation or felt that there were already existing safeguards in place.

2.44 There was concern from several stakeholders that costs for compliance should be kept to a minimum to ensure that these products are attractive to providers.

Question 10: How could the simple products brand be developed?

2.45 Many of the respondents commented on the importance of brand positioning. They felt that clarifying the ethos and unique selling point of simple products would be crucial in helping develop the brand. Respondents felt that the brand identity needed to appeal to the mass market, not just one segment of it.

2.46 There were a number of comments about using the word 'simple' to identify the product. Many respondents feel that simple can carry negative connotations and that it may not be the best identifier. Other suggestions proposed were 'clear', 'vanilla', 'vital', 'essential', and 'basic'.

2.47 Some felt the brand should be developed through a recognisable and trustworthy kite mark or logo to demonstrate to consumers that the products meet certain standards.

2.48 An awareness raising or publicity campaign was suggested in several responses as a means to help embed the brand, but that this would require commitment of participants for funding. Other ways of raising awareness suggested included education in schools or through the Money Advice Service.

2.49 A small number questioned the need for an independent brand. They felt strong brands already existed in financial services and questioned whether consumers would want to see another brand emerge. These respondents suggested focusing on the sales and distribution channels to encourage take up of simple products rather than branding.

2.50 Several respondents also felt that the ISA brand analogy mentioned in the consultation was not the best analogy for simple products, as ISAs had the advantage of tax benefits and stability. There was a suggestion that the branding around the National Employment Savings Trust (NEST) would be a better example to learn from.

Question 11: How can consumers be reassured that these products meet the required standards?

2.51 A range of different suggestions were proposed, many building on answers to questions 3 and 9 outlined above.

2.52 A recognisable brand or logo that consumers can trust meets certain standards was the most common suggestion. The Corgi standard used in gas installation was used as an example of a trusted consumer brand or set of standards by several respondents.

2.53 A number of respondents felt that ensuring that the product complied with minimum standards would be enough to reassure consumers, potentially through monitoring by trusted bodies. A minority suggested that the FSA already fulfilled this function, particularly through the financial promotions regime.

2.54 A small number felt that purely having a transparent product with measurable outcomes would help consumers understand the product and provide reassurance that the product met the required standards.

2.55 A few respondents felt that ensuring consumers have the means to hold companies to account, through a robust complaints process and access to the Financial Ombudsman Service, would provide further reassurance to consumers.

Question 12: Do you agree that deposit savings products and protection products should be the initial areas of focus? Are there significant features or product characteristics in these categories that would lend themselves to standardisation?

2.56 The vast majority of responses agreed with the consultation's position that deposit savings and protection insurance should be the starting point for development of simple products. These respondents saw these as lower risk products that could help develop the brand quickly and prove the principle. They also saw an unmet need given the large savings/protection gap.

2.57 A minority suggested that more complex protection products (such as critical illness cover) should be excluded due to the complexities of the underwriting process. A very small number of respondents suggested that the initial focus should be on savings alone as all protection products were too complex.

2.58 Respondents who disagreed with the focus on savings and protection generally felt these were simple enough, and that the focus should be on more complex products, such as annuities, investments and pensions. Their rationale was that these products carried more potential for consumer detriment and were generally seen by consumers as more prohibitively complex. Many respondents said that investment products, which the consultation had proposed to exclude from the initial stages of development, should not necessarily be excluded at this stage. Some saw several investment products as good candidates for simplification and suggested that they could be part of the medium-term development of simple products.

2.59 Other respondents broadened the scope beyond savings and protection to looking at consumers' generic needs and suggested adding other essential products. Credit products, current accounts and general insurance products (including motor and contents insurance) were mentioned most frequently.

Question 13: Do you have views on how simple financial products could be developed to benefit particular age-groups or sections of the market?

2.60 The majority of respondents felt that simple products should not be designed for one particular group, reflecting the responses to Question 6. They felt that firms could market the same simple products to different age groups/market sections depending on their business model. However a number of respondents did raise the fact that different product categories are generally more likely to appeal to or benefit different age groups, (for example annuities and lifetime mortgages are designed for older people, while income protection is designed for those in work.). Other respondents noted that younger people could particularly benefit from simple products.

2.61 A small number of responses felt that simple products could be linked to life stages rather than age groups, as people tend to purchase products in relation to life events (for example, purchasing life insurance after the birth of a child). Other sections of the market mentioned by respondents included those in employment, and possible links between group pensions or employee benefit provision.

Question 14: The Government would welcome any evidence about costs and benefits of developing a new regime of simple products, preferably drawing on experience of implementing previous simple products initiatives or introducing new products lines.

2.62 Many responses felt that it was too early in the process to say what costs would be incurred in the development of simple products, as costs are highly dependent on the nature of the product design, the distribution channels used and the regulatory framework.

2.63 A number of responses suggested ways of keeping the costs of development to a minimum, particularly if the products developed had profit margins lower than is typically the case. It was suggested that a focus on a low cost model for distribution, high consumer take up and stability in the market to allow costs to be recouped would help to make simple products profitable. Equally, it was suggested that adapting existing products or developing a baseline or benchmark list of features against which consumers could compare actual products would be cheaper than new product development.

2.64 Some respondents mentioned the potential benefits to firms. If simple products lead to better consumer understanding of products and better consumer choices, consumer satisfaction is likely to increase and number of complaints decline. It was suggested that the example of simple products from South Africa, known as 'Zimele', demonstrates provision of simple products could also help increase wider take up of products.

2.65 Several responses also pointed to the costs to consumers of choosing the "wrong" products as something which could be addressed by simple products. For example, interest forgone in taking out a savings account with a one year bonus rate, and then not switching to a better rate when the interest rate drops.

Question 15: What would be the benefits and disadvantages of linking simple products to Money Advice Service's national financial advice service, including within the financial health check?¹

2.66 Most respondents could see synergies between simple products and the work of the Money Advice Service (MAS). There was in general a positive response to this link and stakeholders saw the two as complementary. Simple products could add to the MAS offer by providing a benchmark to help consumers understand the products available and what they require to meet their needs. A number of responses suggested that a simple product may make it easier for consumers to take action, as it could help smooth the customer journey through the product purchase process. However, a small number of respondents commented that the MAS would not take consumers far enough in their journey, as it will not sell any products.

2.67 While the response was generally positive, stakeholders made a range of comments. The most responses were around the boundaries of the Money Advice Service. A number of stakeholders sought reassurance that the service would not stray into regulated advice or be seen as regulated advice by consumers. It was therefore felt the service needed to make clear to consumers the limits of generic advice and have a good system in place for passing people with complex needs on to regulated advice. There was a general feeling that Money Advice Service should talk about the whole range of products on the market, rather than favouring simple products. Respondents felt simple products would not be the best option for everyone and the Service should be able to make clear to consumers when other products may be more suitable.

¹ The original consultation question read: 'What would be the benefits and disadvantages of linking simple products to CFEB's national financial advice service, including within the financial health check?' The Consumer Financial Education Board (CFEB) became the Money Advice Service (MAS) on 4 April 2011.

They felt there is a risk of consumer detriment if Money Advice Service only recommends simple products, and questions were raised in responses over who consumers could seek recourse from.

2.68 A small number of respondents also mentioned other services which could be linked to simple products. The Consumer Credit Counselling Service's Money Matters tool, comparison websites, social landlords and proposals for simplified advice were all mentioned.

Question 16: Should the new regime of simple products be linked to regulated advice? If so, how might this work?

2.69 There was apparent consensus that simple products should not be excluded from regulated advice, but that there should not be an explicit link. Several mentioned that IFAs may want to consider these products in the same way NS&I products are considered. There were a small number of responses considering the attractiveness of these products to advisers. They suggested that simple products would be easy to explain to consumers, but that they may not attract consumers who want to pay for advice. There were also questions over how simple products would work with regulated advice following the implementation of the Retail Distribution Review (RDR).

2.70 Many stakeholders saw "execution only" as being the right approach to minimise the cost of simple products, and to ensure they are accessible to the mass market. As part of the sales process, some stakeholders felt it would be important to signpost people with complex needs to regulated advice or other products, so they were aware simple products may not be appropriate for them. For example referring consumers on if they want to hold a life assurance product in trust.

2.71 A number of respondents mentioned simplified advice and basic advice, seeing simple products as having the potential to be linked to a more straightforward advice process, possibly using decision tree technology. Stakeholders saw this as being the middle ground between how far the Money Advice Service could take people and full, regulated advice.

2.72 A small number of responses stressed the importance of the role of the workplace in sales and that a link between simple products and employers may be beneficial. A few stakeholders brought up the potential overlap with European directives, especially Insurance Mediation Directive (IMD) and MiFID.

Question 17: The Government would welcome evidence on the role of savings stakeholder products in the market and the effects of removing or keeping them.

2.73 Responses shared general perceptions about the factors they felt held back stakeholder products, including: low take up by their target market; perceived lack of promotion; the charge cap; low minimum contribution levels; and level of regulation. These respondents stated that because of the up-front costs of offering products, it took a number of years before profits were generated (one estimate suggested around 10 years). Some respondents suggested that the stakeholder child trust fund (CTFs) had been more successful. They felt that the different factors determining the relative success of CTFs were marketing, the Government contribution and a clear purpose for the accounts. While a number of responses claimed stakeholder products were not profitable, some companies had made stakeholder products work as part of their business model. A small number of respondents mentioned that consumers have benefited from these products.

2.74 Some responses felt that stakeholder products would need to be re-considered in light of current changes to the market. The RDR, simple products and auto-enrolment were all mentioned as factors driving this need. Respondents suggested they were considering the issues

and trying to balance concerns about confusing consumers with multiple schemes versus changing a market that is currently working well for some companies. There was no consensus amongst those who responded. Some suggested that stakeholder products should be retained in the medium term and that Government should allow the market to decide whether to continue to offer these products. This could be reviewed after a period of years, potentially once simple products are fully established. Some felt the legislation governing stakeholder products should be removed, and some respondents felt there was merit in using the stakeholder regime as the basis for developing a new simple products regime.

Question 18: The Government would welcome evidence on how the basic advice regime is working, if it is understood by consumers and profitable for providers.

2.75 At least one firm reported having made basic advice work for their business and agreed that the model could be profitable. However, many firms said that they did not see basic advice as profitable because it had few cost advantages over full advice combined with a restricted product range. Some responses raised anecdotal concerns that the Financial Ombudsman Service and the regulator would treat basic advice on a par with full advice. A small number of responses felt that there was limited consumer awareness of the difference between different forms of advice.

2.76 Some consultation responses felt that simplified advice was the solution, and that this distribution channel could support simple products in the same way that basic advice and stakeholder products had.

Question 19: The Government would welcome views on any other wider issues that need to be considered alongside simple products, including the impact on the wider market.

2.77 Many current or future initiatives that could overlap with the simple products agenda were mentioned. These respondents raised questions about how the initiatives would be linked and how to ensure that timetables would be coordinated. Wider issues mentioned included:

- developments at a European level, including PRIIPS, MiFID, IMD, and Undertakings for Collective Investment in Transferable Securities (UCITs). Respondents wanted to ensure that the UK remains competitive in Europe, and that policy takes account of the direction of European policy.
- changes to the advice landscape were also frequently mentioned, with the introduction of RDR in 2012 and forthcoming FSA guidance on simplified advice.
- changes to the pensions landscape with auto enrolment and introduction of NEST. Given that NEST is also seen as a 'simple' product by some, respondents raised questions over how consumers would see simple products and NEST fitting together.
- the work of Money Advice Service and the financial health check.
- the FSA's discussion paper on product intervention and any subsequent changes in approach.

2.78 It was suggested by some respondents that simple products needs to be part of an integrated government strategy that includes education, regulation, improving product transparency and tax incentives.

2.79 Some responses commented on possible distribution channels for simple products that beyond those already discussed. Several suggested that there could be merit in linking with employers, social housing and Post Office services.

2.80 A small number of responses felt that further work was needed to understand consumers' views towards these products and which interventions would have the biggest impact to change consumer attitudes and behaviour.

2.81 Some respondents shared concerns about the likely impact of simple products entering the market, with the potential for increased product churn if new consumer entrants to the market were limited or the products resulted in reduced profits.



List of respondents

A.1 The Government is grateful for the formal responses received from the following individuals and organisations:

1st - The Exchange

Association of British Credit Unions Limited

Association of British Insurers

Accenture

Aegon

Age UK

Association of Independent Financial Advisers

Alan Lakey

Allan Sampson

Association of Financial Mutuals

Aviva

AXA Wealth

Barclays

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British Insurance Brokers Association

Bruce Davis

Building Societies Association

British Standards Institute

Capital One

Consumer Credit Counselling Service (CCCS)

CFA Society of the UK

Consumer Financial Education Body

Chartered Insurance Institute

Citizens Advice

Consumer Focus

Credit Action

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Forresters
Friends Provident
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Genworth
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HM Treasury contacts

This document can be found in full on our website: <http://www.hm-treasury.gov.uk>

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