

Sergeant Review *of* Simple Financial Products: Interim report

July 2012

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Foreword

For all the complexity and innovation in today's financial system, it still needs to continue to serve the same purpose as it ever has. Help families save for a rainy day and get the lending support they need. Help businesses secure the finance they need to grow. Help both families and business insure themselves against risk to plan for the unexpected. Consumers need to be able to engage with this system with confidence and ease.

This confidence has taken some severe knocks in recent years, reaching far beyond the financial crises, dating back to endowment mortgage policy mis-selling, and more recently to Payment Protection Insurance mis-selling.

Restoring trust is not an easy task. It requires all of us – the Government, regulators, banks and individuals themselves - to take the necessary steps to remedy the failures of the past.

There are three key elements to this Government's strategy to put the consumer's interest back at the very heart of the financial system: capability, protection and products. We have already taken active measures to achieve this:

- We need to ensure that consumers have both the opportunity and the capability to engage with the system. The Money Advice Service will help to do this by delivering free and impartial financial advice to all.
- The Financial Conduct Authority will have an obligation to monitor the behaviour of all financial institutions and enhance confidence in the system by ensuring robust, fair and proportionate consumer protection.
- We are consulting on our ambition to see a suite of simple, easy-to-compare products to be introduced, to encourage more consumers to enter the financial services market, perhaps for the first time, and make decisions about their finances with confidence.

Following the publication of our response to the Simple Financial Products consultation, last Autumn I asked Carol Sergeant to Chair an independent Steering Group to take this work forward. Carol has worked very hard to get representatives from a wide variety of financial services providers and bodies to discuss together the difficult questions around Simple Products with consumer groups and other interested parties. I have been impressed by the collaborative way in which these participants have approached the task, and want to thank them all for their time and hard work. This report shows the depth and breadth of the issues that have been considered, setting out a solid base for the development of Simple Financial Products.

Ensuring that the work that has gone into this report is transformed into tangible changes for consumers will require the ongoing commitment of all participants. I look forward to seeing Simple Financial Products continue to progress to the next stage.

A handwritten signature in dark ink, appearing to read 'Ma M.', is positioned above the printed name.

Mark Hoban

Financial Secretary to the Treasury

Executive Summary

- E.1** Following responses to earlier consultation on Simple Financial Products in 2010/2011 the Government set up an independent Simple Financial Products Steering Group tasked with initiating a suite of Simple Financial Products that would help consumers navigate the financial marketplace. The Steering Group, and the Working Groups and others that supported it, include a wide range of interested and expert people from consumer bodies, the financial services industry, charities, data and research bodies, and also benefited from observers from the Financial Services Authority (FSA) and HM Treasury. They have been working on this project since February this year and all have given their support generously, on a pro bono basis. I am grateful to them all.
- E.2** At the heart of the initiative is a basic premise – that when consumers arrive at the financial services marketplace there should be simple processes and products available that will allow them to make a straightforward purchasing decision. Achieving this will have wide ranging benefits. Simplicity contributes to building consumer trust. Consumers have confidence in their decisions and purchase products that meet their needs. This is beneficial both for individuals and for the UK economy and society as a whole. We recognise that in the current economic climate there are pressures on incomes and existing high debt levels, which can make it difficult for people to save and buy protection products. However this Report is intended to undertake a longer term review of what are longer term issues. The Report outlines the interim recommendations of the initiative and the questions posed for consultation.
- E.3** The Terms of Reference are set out at Appendix A. Responses to the Government consultation suggested that the Group should initially focus on simple savings and protection products. These products should:
- help consumers benchmark and compare other products on the market;
 - be understandable and accessible to the mass market;
 - not be tailored to meet individual needs, but provide consumers with confidence that a Simple Product will meet their basic needs and offer them a fair deal; and
 - be a viable commercial proposition for providers.
- E.4** The Simple Products initiative, whilst independent, is a key part of the Government's strategy to building a financial market place that meets consumer needs, promotes prudence and encourages greater responsibility. The key tenets of this are:

- **Financial awareness and capability:** the Government has set up the Money Advice Service to raise consumer awareness and increase financial capability by providing free and impartial guidance on financial matters. The intention of this tenet is to encourage individuals to take action to manage their money well;
- **Consumer protection:** the Government has created the new Financial Conduct Authority (FCA) to ensure robust, fair and proportionate consumer protection and to actively promote competition; and
- **Simple Financial Products:** the Government has set up this Steering Group to consider how Simple Products should be identified, structured and where they do not already exist, brought to market.

E.5 The ability to manage your finances effectively and choose the right products and services leads to increased well-being and a better quality of life, at every given level of income. Recent research shows that this goes far beyond the more obvious material benefits. There are also very positive psychological gains from the increased self-confidence that comes with financial resilience and security.

E.6 The issue we are seeking to address is that many people who could enjoy a better quality of life by making appropriate provision for their financial well-being are not doing so. They could be saving more, and protecting themselves and their families better against the uncertainties and challenges they may face, such as unexpected death or loss of income. This Report sets out in more detail how we are defining the people in this target market who could benefit from Simple Financial Products. It is a very large market both in terms of numbers of people, households and the shortfalls in product ownership.

E.7 The lack of engagement with financial products and markets is part of a wider and deeper issue about a lack of skills and experience in financial planning that affects many in our society.

E.8 There are several reasons for this:

- insufficient awareness of the benefits of financial planning and the risks of doing nothing or too little;
- lack of financial capability and self-confidence to deal with financial matters;
- mistrust of the financial services industry; and
- the challenge of making good choices in what seems to many to be an overwhelmingly complicated market place with a very wide range of products, some of which are complex and difficult to understand.

- E.9** The first two issues are outside our Terms of Reference, but they are referred to in this Report because further progress here is essential to the success of any Simple Financial Products initiative. Raising awareness of the benefits of managing your money effectively and encouraging people to take action are key to creating well informed demand for Simple Financial Products. Establishing that effective financial planning is an important personal and social responsibility, like being a good parent or maintaining a healthy lifestyle, is a very important long term objective that will require consistent and persistent efforts from Government, industry, consumer bodies and other trusted intermediaries, over many years. We identify some of the alternative channels that may be used for awareness raising, generic advice and possibly distribution of products in the Report.
- E.10** Awareness on its own is not sufficient; it requires financial capability and self-confidence to turn awareness into action. The Government has set up the Money Advice Service both to raise awareness and to provide independent advice and guidance, but this effort needs the support of many others to succeed and will take time to have a significant impact.
- E.11** With respect to mistrust of the industry, the Government has put in train a number of initiatives, including setting up the Financial Conduct Authority as a more proactive regulator.
- E.12** Simple Financial Products should also help build trust and confidence in the financial services industry. Many believe that there is a “simplicity dividend” in terms of building trust and engagement, leading to increased confidence and product purchases.
- E.13** Turning now to complexities of choice, language, and products that consumers face in the financial market place, we have identified a number of issues:
- i.** There is such a wide range of products and services available that even where there are Simple Products on offer, it is hard for consumers to identify them. Studies of human behaviour show that too much choice is confusing and overwhelming. It can lead to complete paralysis, so that people are often deterred from choosing any product at all.
 - ii.** The language used can be inconsistent and confusing. The descriptions of products are sometimes very technical and not always clear, and even the names of some products can lead to confusion and misunderstanding. This can damage trust if consumers later find that the products they purchased did not meet their needs and expectations.

- iii. Some products are complicated. In an effort to cater for every possible situation, products can offer a bewildering array of options, conditions or exceptions. Even relatively straightforward introductory offers require actions at the end of the introductory period, which many people do not deal with, and this inertia puts them at a disadvantage, which in turn undermines their trust and confidence.
- E.14** We have concluded that Simple Financial Products should be designed to meet essential basic needs and no more, otherwise they will be too complicated. They should be easy to understand, easy to compare, easy to buy, easy to maintain and monitor as well as providing consumers with a fair deal. There should be no risk of surprises for the customer. We have proposed a set of principles against which to assess Simple Products.
- E.15** Simple Products have been designed to be “non-advice” products. In other words they have been designed so that they can be bought directly (e.g. from providers and other intermediaries), supported by generic advice from the Money Advice Service. This will mean buying the products will be affordable for consumers and marketing them will be commercially viable for providers.
- E.16** Each Simple Product will have the same terms and conditions and will be described in exactly the same, straightforward language. Providers will compete on price, service, and the value associated with their own brand. This means that Simple Products will be easy to understand and easy to compare.
- E.17** We do not propose to limit or inhibit the range of other, “non-simple” products on offer now or in future. If people want more complex products (and many are happy with the products they already have), these will continue to be available alongside Simple Products.
- E.18** Simple Products will be clearly signposted with a badge, so that consumers know that the product meets the Simple Product standards. Each product will carry two brands – the brand of the provider and the Simple Products brand. The badge will be awarded after a rigorous accreditation process.
- E.19** We are recommending that an independent accreditation body be set up to monitor the overall effectiveness of the initiative, as well as managing the accreditation process and ensuring that Simple Product standards continue to be met. It will also make recommendations for new Simple Products and any other measures necessary to support the initiative.
- E.20** Ongoing monitoring and research will be required to evaluate the impact of this initiative, and to better understand where adjustments might be needed. In our view this is a long term issue requiring permanent focus and attention.

E.21 We are proposing that the first three Simple Financial Products to be launched should be:

- Easy Access Savings Account;
- 30 Day Notice Savings Account; and
- Life Cover.

In addition, we invite comment on a Simple Income Replacement Product for loss of income due to sickness. We would like to include this in the Simple Product suite as soon as possible given the significant benefits to society we see in this type of Simple Product being made available safely to consumers.

E.22 Many of these products already exist or could be adapted with relatively small changes to terms and language. We are therefore confident that Simple Products will be commercially viable as well as meeting consumer needs. Nonetheless there remains a need for consumer testing of the products, processes and language proposed as well as the Simple Products badge.

1 Introduction

The Challenge

- 1.1 When consumers make good financial decisions for themselves and their family, their lives are enriched. This goes well beyond the more obvious benefits of increased financial resilience and comfort that savings and insurance can provide. Recent research shows that being able to manage money well and choosing the right products and services yield significant psychological benefits at any income level.¹
- 1.2 There has arguably never been a more important time to help people take charge of their finances and manage their money better. With the volatile nature of the global economy, the sharp drop in UK household incomes for 2010-2011² and uncertain employment patterns, having financial provision and protection for today's needs and the unexpected, is even more of a necessity.
- 1.3 At the same time there is a change in the nature of the relationship between the individual and the traditional functions of the welfare state. As the Government continues its reforms to promote work and personal responsibility, it is inevitable that more responsibility will be required of the individual to provide a financial safety net for themselves and their family.
- 1.4 In 2006, the Financial Services Authority (FSA) carried out a large-scale survey into the financial capability of the UK population. Evidence from this survey showed that significant numbers of people, from all sections of society, were not taking basic steps to plan ahead, such as saving sufficiently for their retirement or putting money aside for a rainy day.³ It also showed that unforeseen financial setbacks are common. Over a three year period more than a quarter of the population had experienced a large unexpected drop in income; yet the majority (70%) had made no provision, leaving many people vulnerable to financial shocks.
- 1.5 Other more recent research shows a similar picture. Scottish Widows' UK Protection Report states that nearly one in three households (28%) would not be able to cope financially if they lost their main income. A further 31% say they could only survive for up to six months.⁴

¹ *Financial capability, income and psychological wellbeing*, Institute for Social and Economic Research, July 2011.

² *Living Standards, Poverty and Inequality in the UK: 2012*, Institute for Fiscal Studies, June 2012.

³ *Financial capability in the UK: Establishing a baseline*, FSA, March 2006.

⁴ *Scottish Widows UK Protection Report 2012*, Scottish Widows, 2012.

- 1.6 Swiss Re estimate the “protection gap” – the difference in the amount of cover people hold and the level they should ideally have in place to cover their life insurance needs – at £2.4 trillion (by sums assured).⁵
- 1.7 The “savings gap” has been well documented, focusing on the difference between the amount currently being saved and the amount that needs to be saved in order to secure an acceptable retirement income. For long term pension savings, Aviva has quantified the “pension savings gap” in the UK as £317.5 billion.⁶ This is the largest gap across all the European countries in their study.
- 1.8 Many people, across all income groups, are also failing to put money aside for a “rainy day”. Research indicates that only 20% of the population can be regarded as persistent savers, who regularly put something away in a bank, building society, or Post Office account.⁷ Around 40% of the UK population show a tendency to be persistent non-savers.
- 1.9 There are a wide range of influences on savings behaviour which are well documented. They exist at an individual, household and aggregate level and can act as either a barrier or a trigger to saving.
- 1.10 It is possible to identify a series of life events that are likely to be associated with changes in individual savings behaviour – such as having children, getting married, losing a job, divorce or separation. These events can influence both the ability to save and propensity to save.⁸
- 1.11 Income has a bearing on propensity to save but so does our ability to manage our resources effectively, whatever the level of our household income. A person with average financial capability is nearly 20% more likely to be saving than an otherwise similar individual with low financial capability.⁹
- 1.12 A number of studies have identified psychological factors which act as a barrier to saving. Inertia and attention focused on the here and now characterise many people’s behaviour towards savings, with around 40% agreeing with the statement “*I would rather have a good standard of living today than save for retirement*”.¹⁰ Evidence from behavioural economics suggests that people have a bias towards sticking with the status quo, which involves less mental effort than being proactive and changing habits and behaviours. People also exhibit “loss aversion” (they fear losses more than they anticipate gains) and seek to avoid making a decision they will later regret.

⁵ *Term and Health Watch*, Swiss Re, 2012.

⁶ *Mind the Gap, Quantifying the Pensions Gap in the UK*, Aviva, September 2010.

⁷ *Financial capability and saving: Evidence from the BHPS*, Institute for Social and Economic Research, December 2010.

⁸ *Ibid.*

⁹ *Ibid.*

¹⁰ *ONS Wealth and Assets Survey*, Office of National Statistics, 2006-2008.

- 1.13** The combination of these complex factors of awareness of financial needs, individual financial capability and psychologically driven behavioural attitudes amount to a very significant barrier to engagement; leading to a lack of demand for financial products. Although the demand side is, strictly speaking, outside of the remit of this work, addressing it effectively is crucial to the success of this initiative, and it is referred to later in this report. A key measure taken by Government to address consumer financial capability is setting up the Money Advice Service to help consumers engage with the market.¹¹
- 1.14** There are also issues on the supply side. These normal human behaviours can be exacerbated by the complexity of the financial marketplace and the wide array of products and features on offer. There is some evidence that product design can be part of the solution.¹² Financial products that seek to harness behavioural insights and go with the grain of human behaviour, such as goal based savings accounts, may be effective in influencing financial behaviour and supporting longer term behavioural change.
- 1.15** Workplace pension automatic enrolment is an example of UK public policy initiative to overcome the inertia of saving for the long term and to tackle the pensions gap. Starting in October 2012, employers will be required to automatically enrol eligible workers into a workplace pension. Many people will be saving in a pension for the first time.¹³

Simple Financial Products Initiative

- 1.16** The Simple Financial Products initiative is seeking to address some of the financial issues people will face during their working life, before they take their pension and it focuses on savings and protection products, as recommended in the earlier consultation.
- 1.17** As set out above, there remains a significant job to be done in raising awareness of the benefits of effective financial planning and once aware, ensuring people have the capability and confidence to take action. However, it is important that once consumers decide to purchase a financial product they are not then discouraged from doing so by the very broad range of choice available, or put off by the fear that they will lose out by not fully understanding a product's features. Complexity of products and services should not be a further barrier to engagement.
- 1.18** The need to address complexity of choice is not unique to the financial services industry. Recently the Office of the Gas and Electricity Markets (OFGEM) announced

¹¹ The Money Advice Service was launched as the Consumer Financial Education Body (CFEB) in April 2010, an independent organisation set up under the Financial Services Act 2010 to help people understand financial matters and manage their money better. CFEB became the Money Advice Service on 4th April 2011.

¹² *Transforming Financial Behaviour: developing interventions that build financial capability*, Consumer Financial Education Body, July 2010.

¹³ If workers do not want to save they may choose to opt out.

plans to simplify the tariff system in the energy sector.¹⁴ The decision followed research suggesting that the variety of choice on offer was hindering effective consumer decision making and easy price comparison. The OFGEM measures will enable consumers to compare offerings more easily by introducing a fixed standing charge and a simple unit price, as well as improving customer information including bills, annual statements and price increase notifications.

- 1.19** While it is too early to appraise the initiative's success, similar efforts in other countries suggest that simplicity can have positive effects on people's willingness to engage, including the propensity to save more. An example is found in the United States 401(k) pension system.¹⁵ When enrolling, an employee needs to make some choices and it was found that the more options available the less likely the employee was to join the pension scheme. For every ten pension fund choices added to the choice menu the average employee's participation rate dropped by about 2% and if there were only two funds on offer, participation rates peaked at 75%.¹⁶
- 1.20** Another effort to harness simplicity and standardise insurance products is the Zimele initiative in South Africa. The Zimele brand represents life insurance products that are accessible, appropriate, simple, affordable and offer good value for money with a set of minimum product standards that must be adhered to. This is a financial services industry effort to help that country's low income earners to purchase funeral cover, life cover and physical impairment cover. These products are purchased at local shops and over five million policies have been sold since 2007.¹⁷
- 1.21** Simplification in financial services is not a new idea to the UK. Past initiatives were aimed at increasing consumers' understanding of the financial products available to them. While there are several opinions on why these were not always as successful as might have been hoped, common lessons of where success might lie can be found. Principally among these are; that simplicity is welcomed by consumers; that clearly understanding what you are getting for your money (product features, price and return) is important; that low consumer awareness of the need to plan your finances, will result in low consumer demand, and that industry buy-in and commercial viability is crucial. These lessons have informed the current initiative.
- 1.22** In addition to ensuring that straightforward products are available and clearly signposted, another key part of the strategy is to increase people's awareness, and support them in acquiring the necessary skills to make good financial choices. The Money Advice Service has been set up to do this.

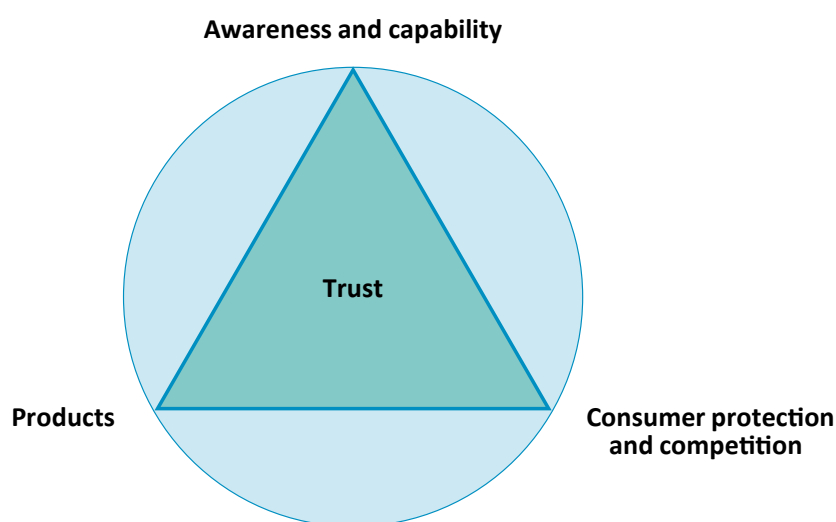
¹⁴ *Delivering a simpler and more competitive energy market*, OFGEM, December 2011.

¹⁵ 401(k) system is an employer-sponsored defined contribution pension plan. Every contribution that is made entitles the employee to a tax deduction.

¹⁶ *How much choice is too much?: Contributions to 401(k) Retirement Plans*, Pension Research Council Working Paper, Pension Research Council, The Wharton School, University of Pennsylvania, 2003.

¹⁷ *Zimele: A case study of a South African initiative to access the under-insured*, RGA, September 2010.

- 1.23** There is also an important issue of consumer trust in the financial services industry. The Financial Conduct Authority (FCA) will be established to help restore consumer trust and confidence in the financial sector by ensuring robust consumer protection and promoting effective competition in the industry.
- 1.24** The Simple Products initiative is a part of a multi-faceted approach to influencing financial behaviour and promoting better outcomes for consumers. Each constituent part of the approach needs to work together to be effective.



- 1.25** The Simple Products Steering Group was tasked to initiate the development of a suite of Simple Products and identify where these products might already exist. It was agreed that these products should:
- help consumers benchmark and compare other products on the market;
 - be understandable and accessible to the mass market;
 - not be tailored to meet individual needs, but provide consumers with confidence that a Simple Product will meet their basic needs and offer them a fair deal; and
 - be a viable commercial proposition for providers.

2 Target Market

Introduction

- 2.1** This chapter outlines the segmentation framework used to define and measure the Simple Products target market, focusing on the two main product areas of saving and protection. We believe that there is a significant market for Simple Products. This analysis focuses on those households who have the resources to engage with savings and protection, but have done so in limited quantities, or not at all. We also examine the attitudes and behaviours in engaging with financial information and using various channels.

Methodology

- 2.2** The segmentation methodology examines affluence¹ plotted against life stage which is a traditional consumer segmentation model. For this framework, we have added a third dimension to the segmentation which focuses on financial attitudes and behaviours.
- 2.3** The basis for the Simple Products target market segmentation is the Experian Financial Strategy Segments 2011.² This segmentation is utilised by a large proportion of the financial services industry. It provides a good basis for financial services segmentation for the UK using personal and household data. This data is then overlaid with the ©GfK Financial Research Survey (FRS) data³ which provides individual product holding level and channel preference information.
- 2.4** A number of filters or criteria were used to create a specific product holding segmentation for each Simple Product type, identifying the market need for Simple Products. These are set out in the following sections.

Simple Savings Target Market

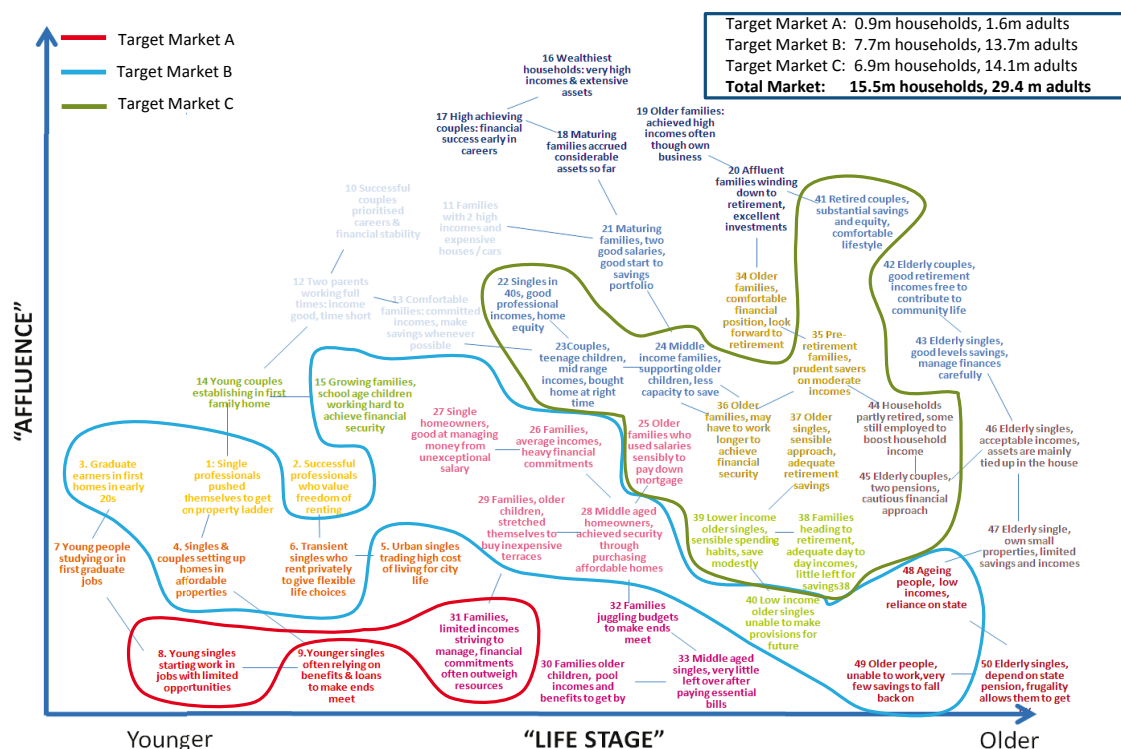
- 2.5** A large proportion of the population have a savings account with some level of savings but they may not be saving enough, or making the best use of their funds.
- 2.6** Our analysis has identified a total target market for simple savings products is **15.5m households or 29.4m adults**. Figure 2.1 (below) breaks down the target market into three sections with different criteria according to the Experian household segments.

¹ Affluence is a measure of income combined with assets.

² www.experian.co.uk/business-strategies/financial-strategy-segments.html

³ ©GfK NOP Financial Research Survey (FRS) 12 months ending March 2012, 60,000 adults interviewed.

Figure 2.1: Simple Savings Target Market*



*See Appendix B for a full page version.

Segmentation Criteria

Income filter

2.7 In order to analyse the target market, we established some working assumptions around income bands. The Institute for Fiscal studies measure the median net household income⁴ for 2010-2011 in the UK as £419 per week.⁵ This is a net median annual household income of £21,788. We have examined income levels less than the median household income level and concluded that the lower limit of the income range should be £15,000. Households at this level and above may have sufficient funds to engage with saving. The lower limit enables us to include retired people who are on lower incomes. The upper limit of the range has been set at £50,000. Households above £50,000 are more likely to seek help from a financial adviser and may not need a Simple Product.

2.8 Therefore, the income range used for analysis is £15,000 – £50,000 net household income. This is applied to target markets A, B and C.

⁴ Using the median income provides a measure of income for the household that is right in the middle of the income distribution.

⁵ *Living Standards, Poverty and Inequality in the UK: 2012*, Institute for Fiscal Studies, June 2012.

Target Market A – “Could have but don’t”

No savings account filter

- 2.9** This filter indicates the target market that currently does not hold a savings account but could afford to do so. Since many consumers already have a savings account, Target Market A (Figure 2.1) is the smallest segment with 0.9 million households or 1.6 million adults.

Target Market B – “Have some savings but less than the median level and less than one month’s income”

Savings level filter

- 2.10** The filter used to define households who have some savings but should and could do more with their savings forms the basis of Target Market B. These are households that currently have a savings account.
- 2.11** The ©GfK Financial Research Survey (FRS) median savings holding for national savings, cash ISAs, instant access and notice accounts are £1,187. Target market B (Figure 2.1) shows households segments with less than £1,187 which equates to 7.7 million households or 13.7 million adults.

Target Market C – “Have some savings but less than three months average income”

- 2.12** A financial planning industry rule of thumb for a level of emergency or rainy day savings is three months of net household income. In addition, the Organisation for Economic Co-operation and Development (OECD) is using it as a measure of financial literacy.⁶ While this is only a standard and may vary by peoples’ individual circumstance, it is a recognised measure that has been utilised for this analysis.
- 2.13** To identify this group, we have applied the rule of thumb to the median income of £21,788, which is £5,447 for a median level of three months savings. Target Market C (Figure 2.1) identifies households that have less than £5,447 in their savings accounts. This is 6.9 million households or 14.1 million adults.

Simple Life Cover Target Market

- 2.14** Many people in the UK do not own life cover who might benefit from this protection, for example households with financial dependents. A death in the family can cause major financial hardship for a household. This target market is analysed to find the

⁶ The OECD created a series of questions to measure financial literacy across many countries. One of the supplementary questions asks have you set aside three months emergency or rainy day funds. *Measuring Financial Literacy: Questionnaire and guidance notes for conducting an internally comparable survey of Financial Literacy*, OECD, 2011.

portion of the market that could benefit from having life cover but may not currently own this type of protection. The total market is **9.7m households or 19.8m adults**.

Figure 2.2: Simple Life Cover Target Market*



*See Appendix B for a full page version.

Segmentation Criteria

Income filter

- 2.15** The same income filter (£15,000 – £50,000) as used in the savings target market is used for the life cover analysis. This initial filter is the first of four filters used to define the Simple Life Cover target market.

Dependants filter

- 2.16** An important component of life cover is protecting those who are financially dependent or co-dependent on the income earner. This allows households within the income range (£15,000 – £50,000) with dependents to be included in the Simple Products target market.

Product holding filter

- 2.17** The Simple Life Cover Product will be targeted at those who do not currently own life insurance. This filter allows those with more than 50% probability of owning a life cover product to be eliminated from the target market.

Life stage filter

- 2.18** The last segmentation filter is life stage. Students and those in retirement with no financial dependents are highly unlikely to need life insurance. Therefore, these households are filtered out of the Simple Life Cover target market.

Simple Income Replacement Target Market (Income replacement if the individual is too sick to work)

- 2.19** Another major financial shock is a drop in income due to illness. Nearly one in three households would not be able to cope financially if they lost their main income. The Simple Income Replacement target market is **12.2m households or 23.5m adults** (Figure 2.3).

Figure 2.3: Simple Income Replacement Target Market*



*See Appendix B for a full page version.

Segmentation Criteria

Income filter

- 2.20** The same income filter (£15,000 – £50,000) is used for the income replacement market analysis. This initial filter is the first of three filters used to define the Simple Income Replacement target market.

Working filter

- 2.21** One of the crucial components to an income replacement product is working status. This filter includes household segments within the income range (£15,000 – £50,000) that have at least 50% of the segment engaged in full time or part time employment.

Product holding filter

- 2.22** Across the UK, there are relatively low product holdings of critical illness and income protection products. This analysis looks at those segments that have a 30% or less chance of owning either product. This means the majority of the groups in Figure 2.3 could benefit from an income replacement product.

Attitudes and Behaviours

- 2.23** All of the target markets (savings, life cover and income replacement) can also be examined according to their attitudes towards engaging with financial information and using various channels. Each target market is broken down by their Experian household segments which correspond to Figures 2.1, 2.2 and 2.3. The charts in Appendix B set out the usage of the following channels:

- Online including internet access, use of online banking and price comparison websites;
- Telephony including use of telephone banking, and mobile banking; mobile and smartphone ownership;
- Branch banking and post office usage; and
- Information channels including using information sources such as financial press, family and friends and independent financial advisers and those who make financial decisions without obtaining information (self).

- 2.24** Our analysis shows that the online channel has average to high usage among the majority of our target market. This provides good potential for developing an online distribution channel for providers that could operate in conjunction with generic advice available through the Money Advice Service website. This could reach a significant proportion of the target market. The main exception is the older segments such as households 48 and 49 who are more likely to go into a branch.

Conclusion

- 2.25** The analysis shows the significant size of the potential target market ranging from 19.8 million adults for Simple Life Cover to 29.4 million adults for Simple Savings products. The segmentation framework can be used as a building block to provide further insight into the proposed target market and how best to engage with these markets.

3 Building Trust and Engagement

Introduction

- 3.1** This chapter looks at how to build consumer trust and engagement, and explores the key drivers that emerge from this analysis. The key drivers form the basis of the Simple Products proposition, and are looked at in more detail in subsequent chapters.

Overview

- 3.2** The barriers to consumer trust and engagement with financial services have been extensively analysed, and are reviewed in detail in HM Treasury's consultation paper on Simple Products.¹
- 3.3** To supplement this we have undertaken a literature review to provide additional background for this initiative, and made reference to the main barriers in the introduction to this report. These include:
- a general lack of awareness and financial capability amongst the UK population² leading to low participation rates and poor financial decisions – this includes the decision not to take out financial products in the belief that the state will provide support at a time of need;
 - psychological factors such as inertia or a preference to stick with the status quo on financial matters;³
 - the sheer variety and complexity of financial products which can be confusing for customers and deter them from taking action, for example in April 2012 “there were over 2,434 savings products on the market”;⁴ and
 - concerns about the professionalism of product providers,⁵ particularly against the backdrop of the current challenges in the industry and a difficult economic landscape.

¹ *Simple Financial Products: a consultation*, HM Treasury, December 2010.

² *Financial capability in the UK: establishing a baseline*, FSA, March 2006.

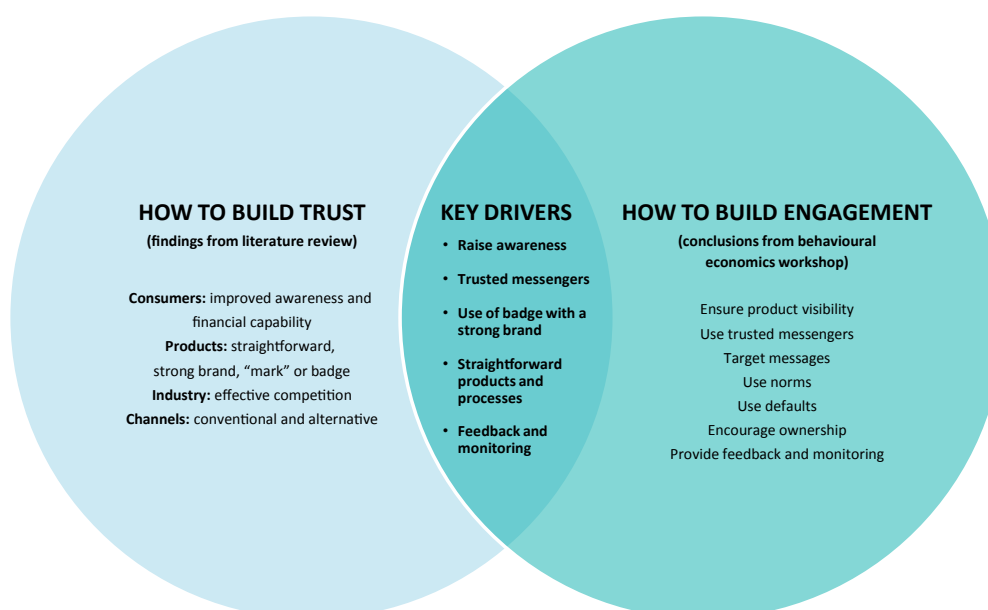
³ *Behavioural Economics and the Financial Services Consumer: A Review*, Financial Services Research Forum, June 2010.

⁴ *Moneyfacts Treasury Reports: UK Savings Trends*, Moneyfacts, April 2012.

⁵ *A confidence crisis? Restoring trust in financial services*, Social Market Foundation, July 2011.

- 3.4** We have also held a series of discussions and workshops with experts in the field of behavioural economics (see Appendix C). The Money Advice Service and Frontier Economics lent their expertise to workshops and support for this project. Conversations with Shlomo Benartzi,⁶ a leading US authority on behavioural economics, also developed our thinking.
- 3.5** In the view of Shlomo Benartzi, “It is important to think about the interaction between simplicity and trust. As people’s understanding increases because things are simpler, trust increases. The relationship between the two is critical. Note, however, that simplicity is about simplicity of process as well as products. The fact that simplifying processes can dramatically boost savings is a well-established fact”.⁷
- 3.6** We used all of this expertise to underpin our discussions on how to build trust and engagement; a summary of which is set out in Figure 3.1. This includes the key drivers, which are explored in more detail in the following sections.

Figure 3.1: How to Build Trust and Engagement



⁶ Shlomo Benartzi is currently working with National Employment Savings Trust (NEST) to develop consumer behavioural insights to inform NEST’s strategy. NEST is a new pension provider recently created to support workplace pensions automatic enrolment.

⁷ Conversation with Shlomo Benartzi, Professor and co-chair of the Behavioural decision-making group at UCLA Anderson School of Management, and co-founder of the Behavioural Finance Forum.

How to Build Trust

- 3.7** This section sets out our views on how to build consumer trust. Our conclusions are based on the Working Group discussions, and the literature review.

Consumers

- 3.8** We believe that it is essential to improve the awareness and financial capability of UK consumers. Consumers with improved financial capability will have increased confidence, and will be better equipped to engage with the financial services industry. “If consumers understand what they should buy, they will buy more products and their trust will increase”.⁸ This will however, only be the true if products prove to be fair value and meet their needs. Consumers experience with the financial services industry plays a key role in building trust.
- 3.9** Improving awareness and financial capability are key priorities for the Money Advice Service, which will begin consultation on a refreshed UK strategy for financial capability later this year. To develop the strategy, the Money Advice Service will work closely with stakeholders to reflect and pull together the wide range of financial capability initiatives that are ongoing across the UK.

Products

- 3.10** There is a very large number and variety of financial products in the marketplace, which, when combined with the complex nature of some products, can deter consumers from taking action. As we previously highlighted, there are over 2,434 savings products in the market.⁹
- 3.11** “Straightforward and expected outcome”¹⁰ products was one of the key recommendations from the literature review, to reduce product complexity and ensure that consumers get the outcome they expect. A “kitemark of trusted financial products”¹¹ also emerged as a means of building up trust in a product. This would help consumers identify “trustworthy products”¹² and act as a benchmark when shopping around and comparing financial products.
- 3.12** These issues are explored in more detail in Chapters 5 to 7 which focus on the Simple Product principles, products and endorsement process.

⁸ Conversation with Shlomo Benartzi, Professor and co-chair of the Behavioural Decision-making group at UCLA Anderson School of Management, and co-founder of the Behavioural Finance Forum.

⁹ *Moneyfacts Treasury Reports: UK Savings Trends*, Moneyfacts, April 2012.

¹⁰ *Defining “straightforward outcome products”*, Financial Services Consumer Panel, August 2011.

¹¹ *A confidence crisis? Restoring trust in financial services*, Social Market Foundation, July 2011.

¹² *Ibid.*

Industry and Effective Competition

- 3.13** Effective competition between providers should lead to improved outcomes for consumers. This is something that is recognised by the Government in its current reforms to the financial sector, “competition plays a vital role in our new framework to protect consumers, giving consumers the confidence to buy products and seek advice”.¹³ Simple Products should help stimulate competition, as it will be easier for consumers to make comparisons. Chapters 5 and 6 focus on the underlying principles for Simple Products and the key features they need to include.

Channels

- 3.14** Our analysis of the target market, in addition to our literature review, concluded that many people would be more comfortable seeking product information or financial advice from trusted intermediaries (e.g. community groups). This does not exclude mainstream channels such as high street providers; rather some individuals feel more of an affinity with less conventional intermediaries, would be more likely to approach them and trust the advice they receive.
- 3.15** Intermediaries are discussed in more detail in Chapter 4, where we look at the role they can play in raising awareness and providing information and advice on Simple Products, in addition to signposting consumers towards further information, or direct to providers.

How to Build Engagement

- 3.16** In this section we consider how to build consumer engagement. We used behavioural economics as the basis for our analysis, and structured a workshop around the MINDSPACE framework.¹⁴ An explanation of behavioural economics and MINDSPACE can be found in Appendix C.
- 3.17** The workshop was hosted by a behavioural economics specialist, and attendees included industry experts on product design and marketing; consumer organisation representatives, and Government officials.
- 3.18** The key findings from the workshop are set out in Figure 3.2.

¹³ Speech by the Financial Secretary to the Treasury, Mark Hoban MP, Simple Products launch, February 2012.

¹⁴ *MINDSPACE, Influencing Behaviour Through Public Policy*, Institute for Government, Paul Dolan, Michael Hallsworth, David Halpern, Dominic King, Ivo Vlaev, March 2010.

Figure 3.2: Key Findings from Behavioural Economics Workshop

Product visibility: a strong brand and use of a “mark” or badge¹⁵ is essential for providing consumers with a mental shortcut on what a product stands for. It is a quick way to identify a product.

Use trusted messengers: many people will be more receptive to advice from trusted messengers or trusted intermediaries such as community groups.

Target messages: it is important to encourage people to feel good about taking out financial products. For example, “start saving now and you’ll have more money to spend when you need it”, “saving brings freedom from debt” etc.

Use norms: people are keen to do what other people around them are doing. Using norms such as “what people like me are doing” or “what my colleagues are doing” will encourage them to engage with a product.

Use defaults: defaults could be a way of making it easier for consumers to make choices and increasing product take up. Defaults could include: automatically setting up a standing order to pay in money when opening a savings account; defaulting to saving money at the time of loan repayment e.g. student loans; defaulting into a savings or insurance product during the payroll process for new joiners. Workplace pension automatic enrolment is an example of a public policy intervention where workers will be defaulted into a pension with the possibility of opting out.

Encourage ownership: building in goals to product design will encourage people to “like” their products, and feel more of a sense of ownership. Showing people how a product makes things they’re already doing: safer, easier and more rewarding e.g. Christmas saving, will build engagement.

Provide feedback and monitoring: making people feel good that they’re on their way to reaching their goal, will help them engage with a product. It is important to ensure that people don’t feel they’ve failed if they have to dip into their savings e.g. taking money out for an emergency.

Key Drivers for Building Trust and Engagement

3.19 We have condensed our findings on building trust and engagement into five key drivers. These are summarised in Figure 3.1, and are explained in the following section.

Raise Awareness

3.20 Using targeted messages to help people understand the benefits of greater financial resilience and make people feel good about taking out financial products will increase their engagement and their interest in and demand for products. These messages could be through industry marketing, intermediary organisations, the workplace, social media, and so on. Chapter 4 considers these channels in more detail.

¹⁵ Kitemark is a registered trademark for products and services audited by the British Standards Institution. In this report (explored fully in Chapter 7) we use the term badge to describe the logo that means products meet certain standards.

Trusted Messengers

- 3.21** Many consumers would feel more comfortable seeking information and advice from community groups or local organisations that they trust. This would include information on Simple Products, and signposting on how to buy them. We organised a roundtable of intermediary organisations to explore their interest in Simple Products, and whether they would be suitable awareness raising channels. The roundtable is discussed in more detail in Chapter 4, which looks at how to raise awareness of Simple Products, and the role that intermediary organisations could play.

Use of Badge with a Strong Brand

- 3.22** A badge with a strong brand will be critical to the success of Simple Products, and will be instrumental in forming a mental shortcut for consumers that allow these products to stand out from the others. Chapter 7 looks at the brand framework for Simple Products, and the core value of being “clear and straightforward. It is not flash but low maintenance and sensible. It does what you expect.”

Straightforward Products and Processes

- 3.23** Product complexity can deter consumers from shopping around, making comparisons, and buying products. Creating straightforward products that are easy to understand, easy to buy, and do what consumers expect them to, will build trust and engagement. Chapter 5 looks at the principles that Simple Products would have to meet, while Chapter 6 explores proposals for simple savings, life cover, and income replacement products.

Feedback and Monitoring

- 3.24** It is crucial to provide feedback to consumers about their success in building greater financial resilience (for example, meeting their savings goal or building up a rainy day fund). As part of good money management, it is also important to build in a financial needs and product monitoring element as consumers’ requirements change over time and should be reviewed. The consumer needs cycle, of which feedback and monitoring is an integral part is examined in Chapter 4.

Conclusion

- 3.25** Our findings demonstrate that simplicity is a key component of building up trust, which in turn will encourage consumers to engage with financial services. Consumers who have confidence in their own capability and in the financial service industry will be more likely to buy financial products and services, which will help them to manage their money. This will take time to build. It may be possible in some way to measure the “simplicity dividend”.¹⁶ This could be used to quantify the impact of simplicity and trust thereby demonstrating the value of simplification.

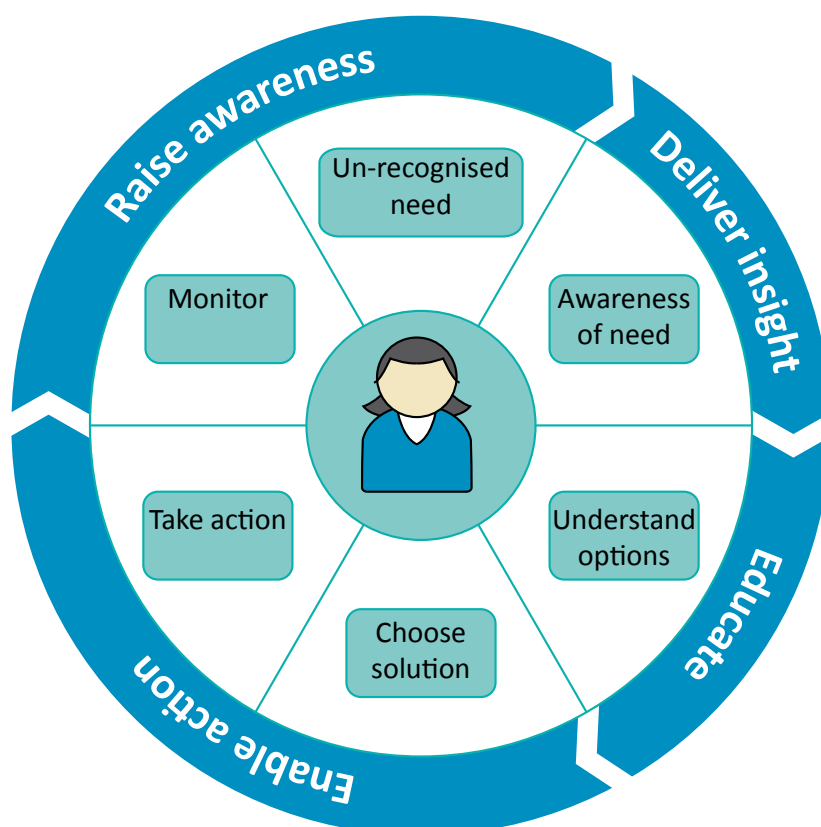
¹⁶ Concept suggested by Shlomo Benartzi.

4 Raising Awareness and Capability

Introduction

- 4.1** In this chapter we look at how to raise awareness of Simple Products, increase financial capability and help consumers manage their money better. We believe that financially capable and aware consumers, who are able to manage their money well, will be fundamental to creating demand for financial products; and that establishing this awareness and skill set as a social norm should be a longer-term public policy objective.
- 4.2** We use the consumer needs cycle in Figure 4.1 to explore the different stages of raising awareness of product need, and look at some of the different channels that could be used to build up consumer awareness of Simple Products.

Figure 4.1: Consumer Needs Cycle



Consumer Needs Cycle

- 4.3 We appreciate that this is a diagrammatic representation of the consumer needs cycle and that it may not be so straightforward in practice. However, it is a helpful tool for illustrating the different stages a consumer could go through: from need identification to post-purchase product monitoring.
- 4.4 The starting point for a consumer is developing an awareness of a financial need. This may be a life event such as having a baby, intermediary information, advice from friends and family and so on. In order to fulfil that need effectively and with confidence they will need to acquire the necessary financial capability. By financial capability we mean that an individual is: able to manage their money well, keep track of their finances, plan ahead, and make informed decisions about financial products.
- 4.5 The second stage will be to understand the different options available, and choose a solution that meets the financial need. Consumers may go direct to product providers, or seek advice from professional advisers, the Money Advice Service, their colleagues, friends or family.
- 4.6 This will take the customer to the point of product purchase. Purchase may be direct from a provider, or through a regulated adviser, distributor or comparative website. The final stage is post-purchase monitoring and review of the product, to ensure that it continues to meet the customer's needs.

Awareness Raising Channels

- 4.7 There are many different channels that could be used to raise awareness of financial needs and Simple Products. This will be essential to the overall success of the initiative. This section starts by looking at three channels in detail to illustrate the role they could play in raising awareness of Simple Products, and concludes by considering other important channels.

Money Advice Service

- 4.8 The Money Advice Service was set up to help consumers identify their financial needs. This can be through using a consumer's life event such as having a baby as a trigger to raise awareness about the need to take out a product (e.g. life insurance); or through advice on specific money topics which can help consumers recognise wider needs. Once a consumer is aware of their need, the Money Advice Service can help them understand the different options available and encourage them to take action.

Money Advice Service

In the case of Simple Products, the Money Advice Service could flag Simple Products to people for whom the right action might be to buy those product types. It could use the Simple Products values and features to nudge people into making active decisions: overcoming mistrust, caution, inertia and too much choice – especially in the case of people who have not participated in the market before. Advice from the Money Advice Service could feature guides, tables and tools to help people decide if they should consider a Simple Product, or explore the market further for more bespoke options.

In time the Money Advice Service could build a suite of dedicated Simple Product comparison tables. Consumers that had identified Simple Products as meeting their needs would be encouraged to take action; and be equipped with information on where to purchase (direct from a provider or via an intermediary, etc.) and how to review them on a regular basis post-purchase.

Product Providers

- 4.9** This channel is more likely to apply to consumers who are already aware of their product needs, and are seeking a solution to meet them. This could be through an existing relationship with a provider, through a financial adviser, a product comparison site, or through an industry promotional campaign to attract new customers.

Product Providers

With Simple Products, promotion is likely to be via literature held in branches and product information on provider websites. Consumers considering their product choices would be provided with pre-sales information on the key product features to enable them to compare and contrast the Simple Product with other products in the provider's range and also other competitor's products.

Comparative websites will also be a significant source of information.

Independent Financial Advisers

- 4.10** While the aim is for Simple Products to be sold without advice, regulated advisers, such as independent financial advisers, could also be an important distribution channel. The sale would then of course be subject to the normal regulatory sales requirements.

Third sector Intermediary

- 4.11** In Chapter 3 we looked at the role of intermediary organisations in building consumer trust. Many people would prefer to seek product information or financial advice from intermediary organisations. There are many organisations that could raise awareness of Simple Products. In this section we look specifically at the role that Age UK could

play. We also discuss the findings of an intermediary roundtable¹ that considered more widely the role of intermediaries in raising awareness of Simple Products.

Age UK

A key means of disseminating information on Simple Products to its consumers could be through Age UK's flagship information and advice service. In 2011 it reached 6.4 million people, with over 4.8 million printed and online resources distributed.²

Age UK has numerous other channels available e.g. lunch clubs, home repair visits, digital inclusion support and through its community channels. It also has the opportunity to communicate with donors.

The extent to which Age UK could actively support awareness raising of Simple Products would depend on the nature of the products brought to market and the extent to which they are appropriate for and accessible to older people.

- 4.12** The roundtable discussion found that intermediaries were supportive of the Simple Products concept, but the following issues were raised: the brand alignment between Simple Products and the function of the intermediary organisation; the need for convenient ways to point users towards trusted, impartial sources of information about Simple Products; and a means of distinguishing between those groups that already provide financial products e.g. the Post Office, and those that could be neutral sources of information.
- 4.13** A further area that was discussed at the roundtable was the possibility of developing affinity relationships between intermediaries and Simple Product providers. This is where intermediaries such as housing associations could partner with providers, and become active in distributing Simple Products. The model could help to encourage and improve product access, if, for example, the intermediary could help their users take out a product e.g. assist with opening an account. A key issue would be whether sufficient economies of scale could be achieved through affinity products to make them commercially viable. Recruitment and retention would also be a consideration; affinity models may be unattractive to intermediaries with a high turnover in their user group.

¹ Roundtable attendees included: Age UK, Post Office Ltd, National Association of Student Money Advisers, Royal College of Midwives, Marks & Spencer, Group Risk Development, Moneysupermarket.com, Metropolitan Housing Association, London Councils, Money Advice Service, HM Treasury, and Virgin Money. Additional conversations took place with the Law Society, the CBI and Oddfellows Friendly Society.

² *Age UK Annual report*, Age UK, 2011. www.ageuk.org.uk/Documents/EN-GB/Corporate/annual_report_2011_long.pdf?dtrk=true

Other Awareness Raising Channels

- 4.14** Another important channel for raising awareness is the workplace. For example, of the current 29.1 million working population in the UK,³ only 1.8 million people are covered under group income protection policies and 8.2 million people are covered for death benefits.⁴ A SAP survey⁵ on UK flexible benefits demonstrated that 74% of respondents would not have, or would have been unlikely to have taken out products such as critical illness cover, without the benefit of their company's flexible benefits scheme. There is also significant CEO interest in workplace saving arrangements "56% of CEOs believe offering a wider range of flexible workplace saving arrangements would be an attractive option".⁶
- 4.15** Social media could also be an important channel. Any social media activities would need to be carefully managed however; inaccurate information could spread very quickly to the detriment of the provider or end consumer. An example of a social media campaign to promote the concept of buying insurance products is set out below.

Lifewise⁷

This is an Australian industry-led campaign to promote the general concept of buying insurance. It was launched in 2009 after two reports by the Australian insurance industry in 2005 and 2008 concluded that Australians do not buy enough insurance. It was re-launched in 2012 with the slogan of "Love life. Protect it". The aim has been to attract women, as their research shows that women are more concerned about insurance.

Social media is an important part of the campaign, including Facebook and Twitter. Since the re-launch, Facebook usage is up by 1000%. Lifewise plans to launch a social media platform later in 2012 to act as a hub for their social media activities. The aim is to make it simple for users to go from one medium to the next.

- 4.16** Many people turn to friends and family on financial matters e.g. 65% of respondents to a CFEB survey⁸ on young people's decision-making responded that "Mum or Dad" is the most likely influence on their purchase; and research by the Association of British Insurers found that 26% of consumers say they would go to their friends and family for advice on buying a financial product.⁹ Friends and family will therefore be important for raising awareness about Simple Products.

³ Office for National Statistics, 29.12m people in employment aged 16 and over, March 2012.

⁴ *Group Watch 2012*, Swiss Re, April 2012.

⁵ *UK flexible benefits survey*, SAP, 2011.

⁶ *A view from the top. The CBI 2011 pensions survey*, CBI, December 2011.

⁷ Lifewise, www.lifewise.org.au

⁸ *The influence of financial promotions on young people's decision-making*, CFEB, 2010.

⁹ *Financial Advice and Information Research Review*, ABI, 2010.

- 4.17** Professional service providers such accountants or solicitors could also be helpful. Where relevant they could inform their clients and Simple Products, and signpost them to trusted sources of further information and advice.

Conclusion

- 4.18** In this chapter we have explored different channels that could be used to raise awareness of Simple Products. They will be very important in generating demand for Simple Products; but they are only part of the story. As we saw in the previous chapter, simplicity – simple processes and products – are also necessary to build trust and engagement and engender consumer demand. We consider the principles that will underpin Simple Products in the following chapter, and the products themselves in Chapter 6.

5 Simple Financial Products Principles

Introduction

- 5.1** This chapter describes the principles that Simple Products need to comply with. It is proposed that the principles will provide the framework for a future accreditation process which is described in Chapter 8.

Simple Financial Products Principles

- 5.2** The key objective of the Simple Products initiative is to increase the number of consumers in the financial markets by providing straightforward, easy to understand products that are clearly identifiable as meeting Simple Product standards. We have developed a set of high-level principles to guide the creation and identification of Simple Products. These principles reflect the requirements of transparency, clarity, comparability, straightforward outcomes and effective communication. The principles have been used to develop the product designs for savings and protection in Chapter 6. They are intended to serve as the principles for all future Simple Products.

Principles	
1	Essential product features that are simply explained, useful for the consumer and meet the needs of the target market.
2	Clear, straightforward and standardised language and presentation so that all firms are using the same language and presentation for product information to enable consumers to understand and compare products.
3	Standardised product names that clearly identify the nature of the product.
4	A limited number of reasonable conditions, options, and exclusions which are simply explained and understandable.
5	Straightforward and clear purchasing process for the consumer.
6	A clear pricing and return structure which is easily understood by the consumer and allows products to be compared with one another. This would include standard methods to calculate prices, interest, charges and appropriate notice for fair and reasonable changes in price, term or conditions.
7	Ancillary fees and charges for exceptional items are transparent, reasonable and predictable.
8	Clear methods of informing the consumer about the current prices and returns and any changes, as well as regular updates on the status and benefits of their product.

- 5.3** In addition, firms would be limited to one issue of each simple product type per brand; per channel. This would ensure equal treatment of new and existing customers. For example, under the simple savings category, a firm can only issue one simple easy access account and one simple notice account for each of its distribution channels per company brand.

Recommendation

The set of high-level principles form the guidelines against which Simple Products proposals are assessed.

6 Simple Financial Products

Introduction

6.1 This chapter provides a summary of the outcomes of the Savings and Protection Product Working Groups. Both Groups were tasked with making recommendations to the Steering Group on which products should be included in this stage of the initiative and suggestions on how these products should be developed. The chapter represents a synthesis of these discussions and, using the principles outlined in Chapter 5, recommends products and product designs for consultation. The product designs were informed by the target market analysis (Chapter 2), the trust and engagement work (Chapter 3), and potential awareness and distribution channels (Chapter 4).

Objectives

6.2 The Product Working Groups were tasked with considering products that would meet the Simple Products principles. The Steering Group was clear that this might not necessarily involve the development of a new product suite and that products capable of satisfying the criteria may already exist.

6.3 The Steering Group outlined that products to be considered should:

- create a straightforward benchmark to help consumers compare products on the market;
- be understandable and accessible to the target market;
- meet the basic needs of consumers and offer fair value;
- be a viable commercial proposition for providers and distributors; and
- be appropriate for non-advised sales.

6.4 It was also recognised that different products may require different approaches. As consumers currently have difficulty in comparing product features, it was agreed that product simplification, standardisation and benchmarking should be key discussion points.

6.5 While the Groups were free to highlight potential obstacles in the current legislative and regulatory environment, it was emphasised that their proposals should not be dependent on regulatory or legislative changes being made. As a result finding solutions within the current environment remained the focus of the Groups.

Competition Law

- 6.6** The Working Groups were mindful of complying with competition law requirements throughout their discussions. The Office of Fair Trading remained updated by the Chair of the Steering Group on the nature of discussions taking place. Pricing is a commercial matter for individual providers, and this will be a key source of differentiation between providers. However, in addition to standardisation of terms and conditions and language, the simplicity agenda also requires common pricing structures. Pricing structures were therefore discussed but not the pricing policies of individual firms.

Simple Savings Products

- 6.7** The Group considered the suitability of a range of deposit savings products to be accorded Simple Product status, eventually focussing on two: an easy access account and a 30 day notice account. It was felt that both these products were already simple propositions, and could act as stepping stones toward more complex savings products.

Design of Simple Savings Products

- 6.8** The table below sets out a summary of high-level criteria for the two potential simple cash deposit products. The tax treatment of each of the accounts has not been considered at this stage, although the working assumption is that each of the products would be capable of being used within an ISA wrapper. Two other products – a fixed term account and a regular savings account – were considered but deferred for future consideration as the respective features of these accounts are felt to be inherently less simple than those of easy access and 30 day notice accounts. Descriptions of these two products are set out in Appendix D.

	Simple easy access^a product	Simple notice product
Product rationale	For everyday savings that can be accessed immediately if needed for an emergency or 'rainy day'	For savings that can be accessed with 30 days' notice for expected expenditure
Minimum balance/deposit	£1	£1
Maximum balance	Not less than [£x]	Not less than [£x]
Method of deposit	No restriction – all methods allowed – none prescribed	No restriction – all methods allowed – none prescribed
Frequency of deposit	No restriction	No restriction
Charges	No charges for day-to-day usage of the account Charges for exceptional items, such as duplicate statements or replacement passbooks, allowed	No charges for day-to-day usage of the account Charges for exceptional items, such as duplicate statements or replacement passbooks, allowed
Withdrawal restrictions	No withdrawal restrictions	Withdrawals allowed with 30 days' notice or loss of up to 30 days' interest. No other restrictions
Limit on number of accounts per distribution channel	One product, per brand, per channel	One product, per brand, per channel
Interest restrictions	No introductory bonus No tiered rates	No introductory bonus No tiered rates
Compulsion to offer via specified channels?	No	No
Should there be a requirement for pricing of the products to be the same irrespective of the delivery channel?	No	No
^a The title "easy access" acknowledges that withdrawals via some channels may not be immediate – e.g. access to some postal accounts may be via a BACS transfer or cheque.		

Alignment of Features to Simple Products Principles

- 6.9** The Group believes that the features of these products support the Simple Products principles and are appropriate for the target market. These features are assessed in more detail.

Principle 1: Essential product features that are simply explained, useful for the consumer and meet the needs of the target market.

- 6.10** The Group were mindful of the need for products that are easy to understand, purchase, and which meet the needs of the target market. The inclusion of a £1 minimum deposit/balance is designed to maximise take-up among consumers in this market, and ensure there is no barrier to opening an account.

- 6.11 Whilst there might be benefits in a low maximum balance for simple deposit products – i.e. it might enable some providers to offer a higher interest rate and thereby compete more effectively with ‘non-simple’ products – these benefits might be outweighed by allowing customers to have higher balances. Accordingly, the Group left open the question of whether any restrictions should be placed on the maximum balance for Simple Products, and what this should be.
- 6.12 The Group felt that the method of deposit should be for individual providers to determine, and providers should not be required to offer all possible methods of deposit as this would most likely restrict the supply of accounts. It is hoped that, although no particular method is prescribed, there will be a sufficient range of providers of Simple Products, so as to ensure that in practice the accounts are made available via a range of distribution channels and allow a range of payment methods.
- 6.13 It would also be for providers to determine the means by which withdrawals may be made in order to promote a high take-up among providers. The methods offered should not constitute a barrier to withdrawal e.g. there should be no requirement to have a linked current account at the same provider to open/manage a simple deposit account.
- 6.14 30 days is suggested as the notice period for the Simple Notice Product as this would differentiate this product from the easy access account, whereas a seven day notice account, for example, would serve a similar market to the easy access account. Earlier access, with loss of interest on the amount withdrawn, would be permitted within the 30 day notice period. We believe that this can be simply explained to consumers.

Principle 2: Clear, straightforward and standardised language and presentation so that all firms are using the same language and presentation for product information to enable consumers to understand and compare products.

- 6.15 Product terminology should be aligned as far as possible across the simple deposit range to support consumer understanding and product comparability, including terms and conditions.
- 6.16 To aid this endeavour, the Group suggested that a version of the Banking Conduct of Business Sourcebook (BCOBS) Savings account summary box¹ could be deployed for simple savings product disclosure. The summary box could be subject to a plain English review and/or the mandatory terms currently used in the summary box could be replaced by questions (e.g. instead of ‘withdrawals’, it could say ‘how do I get my money out?’). National Employment Savings Trust (NEST) has undertaken some

¹ The summary box is set out in the BBA/BSA/Payments Council Industry Guidance on BCOBS. See summary box on page 25 of guidance. www.bba.org.uk/media/article/industry-guidance-for-fsa-banking-conduct-of-business-sourcebook

interesting work along these lines in regard to pensions.² Prescriptive regulatory requirements sometimes preclude the use of straightforward language and where this is the case, should be reviewed.

Principle 3: Standardised product names that clearly identify the nature of the product.

- 6.17** All products within a Simple Product class would have the same self-explanatory product name (to be determined) and would be badged as a Simple Product through the accreditation process.

Principle 4: A limited number of reasonable conditions, options, and exclusions which are simply explained and understandable.

- 6.18** There are no significant conditions associated with the easy access account. For the 30 day notice account, withdrawals are allowed with 30 days' notice or loss of up to 30 days' interest. No other restrictions apply.

Principle 5: Straightforward and clear purchasing process for the consumer.

- 6.19** It is envisaged that the products will be available through a range of distribution channels and be subject to prevailing regulatory requirements.

Principle 6: A clear pricing and return structure which is easily understood by the consumer and allows products to be compared with one another. This would include standard methods to calculate prices, interest, charges and appropriate notice for fair and reasonable changes in price, terms or conditions.

- 6.20** In order to maintain a Simple Product offering, the suggested products do not include introductory bonuses and other introductory offers or incentives. Tiered rates would also be excluded as a feature of these products.
- 6.21** Where a provider offers the same product via different channels there should not be a requirement for the provider to pay the same product interest rate as this would not take into account the different costs of different distribution channels and would discriminate in favour of single channel providers. The product description would need to make clear any distribution channel restrictions.
- 6.22** A further area to consider with regard to price/return comparison will be the positioning of Simple Savings Products within providers' wider savings product range. It is key for both staff and customers to be able to understand the options available. A challenge is to make Simple Products attractive compared to other products – the absence of features such as introductory rates on Simple Products may mean they suffer by comparison with other products. The benefit for customers of choosing a

² The Nest phrasebook – Clear communication about pensions, Version 2.0, NEST Corporation, 2012.

Simple Product in preference to a product with an introductory rate for example will therefore need to be communicated clearly.

- 6.23 Price, service quality and brand will be the only areas for competition, noting that rates will be very transparent (and the reputational pressure on providers should not be under-estimated).
- 6.24 Simple Products should be capable of meeting consumers' expectations of a straightforward product over time. The challenge for the simple products initiative with respect to deposits is therefore to develop a product that reduces the need for customers to monitor and switch their account(s), to ensure they continue to receive an attractive deal, although it would be easy to switch should they wish to do so.
- 6.25 The Group agreed that a limit of one product per simple product category, per distribution channel, per brand could prove an effective approach to ensuring equivalent treatment of new and existing customers.
- 6.26 The benefits of this approach are that it would not be possible for a provider to supersede a Simple Product with another Simple Product in the same category. It would also prevent a proliferation of Simple Savings Products, thereby mitigating a potential source of complexity. Moreover, limiting the number of Simple Products may promote consumer understanding and awareness by making them easier to identify and understand.
- 6.27 There are already requirements concerning notifications of change of rate, for example in the Payment Services Regulations (PSRs) and the Industry Guidance on BCOBS. If a firm wanted to cut the interest rate materially it would have to pre-notify the customer in writing before doing so.
 - For savings products regulated by the PSRs (typically this would include a simple easy access savings account), the PSRs contain an unqualified requirement for firms to notify customers whenever their savings rate is reduced (notice must be given at least two months before the change comes into effect);
 - For savings products regulated by BCOBS, firms should pre-notify customers if/when their savings rate is materially reduced. (Materiality should be determined having regard to the size of the balance of the account and the amount of the change in rate. The confirmed Industry Guidance on BCOBS gives guidance on how firms can take a proportionate approach).

Principle 7: Ancillary fees and charges for exceptional items are transparent, reasonable and predictable.

- 6.28 No charges are envisaged for the everyday running of these accounts. Charges for a list of pre-specified exceptional items would be permitted and set by individual providers.

The Group identified the following exceptional items and acknowledged there may be one or two others:

- replacement passbooks;
- duplicate account statements; and
- replacement cards.

These charges would be made clear in product literature and customer disclosures. Respondents should identify other potential charge types for consideration in response to the consultation question on product design.

- 6.29** The Savings Summary Box, which is recommended under the confirmed Industry Guidance on BCOBS, requires firms to set out key product information, including any charges, in a standardised form.³ For Simple Products, a common, standardised, populated summary box for each of the easy access and 30 day notice Simple Products should be developed, using standard, straightforward language.

Principle 8: Clear methods of informing the consumer about the current prices and returns and any changes, as well as regular updates on the status and benefits of their product.

- 6.30** The existing requirements to disclose changes in interest rates would be augmented by more frequent customer communications requirements for simple product holders.
- 6.31** These requirements could include providers notifying customers each time their rate changes (up or down), a standard frequency for simple deposit account statements, the current interest rate of the account being clearly displayed on online statements, and a simple deposits comparison table containing an audited Annual Equivalent Rate (AER). The Group suggested that the methodology for the AER⁴ calculation should be reviewed from the standpoint of enhancing simple deposit comparability. Consideration should also be given to the compliance monitoring framework for the AER.
- 6.32** The form and frequency of these notification requirements will require industry consultation. The Group were supportive of innovative and modern forms of communication e.g. option to receive text alerts if the interest rate changes.
- 6.33** Notwithstanding the above we would note the limitations of customer disclosures in driving demand for saving products. Customers need to emotionally engage in saving

³ Industry Guidance on BCOBS, page 25. www.bba.org.uk/media/article/industry-guidance-for-fsa-banking-conduct-of-business-sourcebook

⁴ www.bba.org.uk/media/article/code-of-conduct-for-the-advertising-of-interest-bearing-accounts
www.bba.org.uk/media/article/calculation-of-the-annual-equivalent-rate-aer

a little bit every month to create a rainy day fund. More work is required to explore how a call to action for Simple Savings Products will be delivered in practice so that customers will feel sufficiently 'rewarded' to save regularly.

Simple Protection Products

6.34 The Group considered the suitability of existing protection products to the initiative. It was decided that products that pay out in the event of loss of life and loss of income arising from sickness, would form the basis of their discussions.

Design of Simple Life Cover

6.35 The Group agreed that life insurance in its most basic form is already a simple proposition – level guaranteed premium, lump sum on death, and cover available for a specified term in years. Available statistics support the “you die, we pay” proposition (during 2010 ABI members paid 98.2% of Life claims).⁵ Claims declined were for certain types of non-disclosure. *The Consumer Insurance Act* codifies current industry practice and will make it the duty of the consumer to respond honestly and with reasonable care to questions that they are asked by insurers.⁶

6.36 While the essential proposition behind life insurance is simple, life products often offer additional features or options; these typically allow customers to protect themselves against the impact of certain events that might otherwise reduce or negate the value to them of their life cover. These include:

- terminal illness cover-paying claims where illness is expected to lead to death within 12 months;
- Guaranteed Insurability Options (GIOs) – these options allow the customer to increase their level of cover without need for further underwriting (perhaps to meet the increased financial needs of a growing family); and
- Waiver of Premium (WoP) – an additional benefit designed to pay the premium on behalf of the policyholder if he/she is unable to work for an extended period of time.

6.37 Providers tend to differ on how these features are described and presented, with descriptions often requiring substantial text to explain their workings properly to consumers. A result is more lengthy disclosure and product literature that consumers are unlikely to read and possibly understand, presenting another potential barrier to engagement.

⁵ ABI press release, 30th August 2011.

⁶ *The Consumer Insurance (Disclosure and Representations) Act*, 2012.

6.38 In keeping with the core tenets of the initiative – that Simple Products should be easy to compare, provide certainty of outcome and act as straightforward entry-point products to the market – the Group agreed that the Simple Product should have straightforward and concise terms and conditions attached to them.

6.39 It was therefore decided that a Simple Life Cover Product would only provide the simple proposition of paying out a lump sum in the event of death.⁷ Further in keeping with the high-level principles to be applied to Simple Products it was agreed that the only reasonable exclusion would be for suicide within the first twelve months of the policy. The terms and conditions for this product would be uniform across providers.

Alignment of Features to Simple Products Principles

6.40 The Group believed that a life cover product, satisfying the “you die, we pay” principle, with no additional features met the established criteria for a Simple Product – particularly those of standardisation and ease of comparability.

Principle 1: Essential product features that are simply explained, useful for the consumer and meet the needs of the target market.

6.41 The Simple Life Cover Product offers a single life product with guaranteed premiums, pays a lump sum on death, and is available for specified terms.

6.42 The Group were very conscious however that some of the additional features offered by some products were often desirable for a consumer to have within their policy and could represent good value. It was deemed important that consumers should be made aware of these features by way of a signposting process. Intermediaries such as the Money Advice Service were viewed as appropriate ways to ensure that consumers were made aware of these additional features that could be purchased outside the Simple Products initiative.

Principle 2: Clear, straightforward and standardised language and presentation so that all firms are using the same language and presentation for product information to enable consumers to understand and compare products.

6.43 It was agreed that the presentation and language used in documentation and product literature is often specific to individual providers and does not represent a genuine differentiation. There is no value in such differentiation, and it can create a barrier to a customer’s ability to understand and compare different providers’ products. At their most basic these differences include the alternate use of “term insurance” and “life cover”.

⁷ The following product features will not be available via the purchase of the simple life cover product: indexation, GIOs, waiver of premium, accidental death benefit, decreasing/FIB cover option, joint life, alterations, conversion option and terminal illness.

- 6.44 The Group recommended that terms to describe the product features of a simple product should be harmonised, with consumer testing being undertaken on the presentational and language aspects to ensure they are simple and modern.
- 6.45 The terms and conditions for this product would be uniform across providers. An indication of how concise the terms and conditions could be for simple life cover product are provided for illustrative purposes in Appendix E. This is by way of illustration only and further research and customer testing is required on the details and language.

Principle 3: Standardised product names that clearly identify the nature of the product.

- 6.46 All products within this range would have the same product name (to be determined) and would be badged as belonging to that suite through an accreditation process. Endorsement and governance are outlined in more detail in Chapters 7 and 8 respectively.

Principle 4: A limited number of reasonable conditions, options, and exclusions which are simply explained and understandable.

- 6.47 The only exclusion included in this product will be suicide within the first 12 months of the policy.

Principle 5: Straightforward and clear purchasing process for the consumer.

- 6.48 The Group considered the extent to which the application and underwriting process were a barrier to consumers engaging with life cover, and the extent to which aspects of these processes could be improved, simplified or standardised to increase ease of access.
- 6.49 There was a lot of discussion around, and work carried out, on the issue of standardisation and simplification of underwriting questions, including the merit of attempting to shorten the time the process takes by reducing the amount of underwriting questions asked.
- 6.50 The Group considered these issues in great detail but concluded that for a Simple Life Cover Product to be a viable proposition for providers and to ensure that the product offered represented good value for money to the purchaser, each insurer should continue to compete on its own risk assessment. It was felt that restricting the underwriting would not necessarily materially improve the process, but could instead introduce potential risks to the Simple Products initiative, including higher pricing or very few providers prepared to offer the products.
- 6.51 The concern is that if a product is very lightly underwritten, and offers very broad cover it could become expensive by attracting a pool of people who are unable to find cover via a fully underwritten product. Firms would then need to price accordingly or

risk making their book insolvent. If the insurance pool of a product consists largely of people who are very likely to claim, the inevitable result is that everyone in the pool will be required to pay a lot more into the pool in order for the pool to remain solvent.

6.52 Throughout these discussions the Group noted that if an individual's circumstances are relatively straightforward there is currently little difference between providers in both the number and nature of the underwriting questions required for a basic life cover policy.

6.53 The Group did agree that more could be done to prepare consumers prior to commencing the application process. This would provide certainty to the consumer on the kind of information to have on hand and disclose during the application process. This could take the form of an "essential pack" of information that the consumer would then have prepared, to avoid the process being reliant on memory and leading to potential non-disclosure or failure to complete the application process. The Money Advice Service website could provide guidance on the information necessary to complete the application process. An indication of the typical time required to complete the application process should be indicated to the customer at the beginning of this application process.

Principle 6: A clear pricing and return structure which is easily understood by the consumer and allows products to be compared with one another. This would include standard methods to calculate prices, interest, charges and appropriate notice for fair and reasonable changes in price, terms or conditions.

6.54 Premiums are set at outset and are guaranteed for the life of the policy.

Principle 7: Ancillary fees and charges for exceptional items are transparent, reasonable and predictable.

6.55 There are none.

Principle 8: Clear methods of informing the consumer about the current prices and returns and any changes, as well as regular updates on the status and benefits of their product.

6.56 There was agreement that post-sales communications would play an important role in ensuring that the amount of cover provided by a Simple Life Cover Product would remain appropriate.

6.57 For example, the Group discussed the provision of an Annual (or other) Benefit Statement to policyholders to clearly identify to the consumer the amount of benefits to which they are entitled and to encourage them to contact their provider/seller if their circumstances have changed. This would complement the process of signposting products with additional features at the point-of-sale.

- 6.58 The form of this communication would require industry consultation to establish the most cost-effective and socially responsible way to approach this, as well as the required frequency.
- 6.59 It was noted that overly burdensome requirements e.g. a stipulation on the provision of information by mail, could impact on the viability of the product to certain providers. Ideally consumer research would also be undertaken to establish when and how often consumers would like to be updated by their provider.

Income Replacement (*if the individual is too sick to work*)

- 6.60 Much of the Group's discussion on the development of a simplified form of an income replacement product arising from inability to work through sickness (excluding redundancy) focussed on the environment in which the current offering exists as well as the sales process involved. While the current proposition offered by income protection (IP) is relatively straightforward, the process required to select the most appropriate offering may be complex. This complexity reflects the variables inherent to an individual's circumstances – with the product required to have sufficient options and flexibility to meet these variables.
- 6.61 To select the correct product for their needs a customer is required to make a series of choices, primarily relating to when the cover should start, how long it should continue, and how much is required. This requires an understanding of their employee benefits and an understanding of their entitlement to certain welfare benefits. These products are likely to be taken into consideration to calculate entitlement to means-tested benefits and eligibility to other associated benefits.
- 6.62 Currently, a pay-out from an IP policy paid for with taxed earnings may not reduce entitlement to contribution-based benefits. However, it can mean a reduction in eligibility to means-tested benefits – although it should be noted that welfare benefits are intended to only cover the basic costs of living. Welfare benefits exist to help those that need it the most, notably those on low incomes. All income is taken into account in the calculation of means-tested benefits, including savings. The exception to this rule is where an insurance pay-out is specifically for expenditure not covered by benefit, for example, mortgage costs in certain circumstances.
- 6.63 The solution to this issue may be to either disregard any pay-out from a Simple Income Replacement Product when making an assessment for means-tested benefit, or to establish a minimum income level below which individuals should not purchase the Simple Product. However, given the nature of state benefits and the relative complexity of establishing eligibility, there remains the potential for some people to buy the product when it is not appropriate for them. A further way to overcome this might be by improving tools, such as the Benefits Adviser calculator on the DirectGov

website,⁸ to help individuals work out the level of benefits they would receive if they were unable to work.

- 6.64** Because of the complexity of the issue relating to means-tested benefits and other employee benefits, the Group did not achieve a consensus on a simplified form of income replacement through non-advised channels, suggesting further consultation was required before it should be launched as a Simple Product. However, both the Working Group and Steering Group agreed on the desirability for such a product to be developed and included in the Simple Products suite and that it would play an important role in the accomplishment of the initiative's objectives. The Steering Group has specifically asked for responses to this issue (see Consultation Questions 6 and 7 in Chapter 9).

Design of Simple Income Replacement

- 6.65** This product should provide certainty of outcome by paying-out when it is needed, and offer choices of cover while retaining a simple and clear process.
- 6.66** The Group agreed that oversimplification (particularly around the underwriting process) or the inclusion of certain features (e.g. reduction in the number of occupational classes) could lead to a fundamentally more expensive product. The layering-on of cost could therefore make the product an unattractive, unaffordable, or inappropriate offering to the Simple Products target market.

Premiums

- 6.67** Premiums would be set at the outset (based on age at application) and guaranteed for the life of the policy. Age next birthday would not be used for the provision of illustrations. Applicants would simply be asked for their date of birth.

Choice of Deferred Periods

- 6.68** Four deferred periods would be offered for consumers to choose from (4, 13, 26 and 52 weeks). While this adds to the complexity of the product, it was felt necessary to reflect the different levels of cover provided by employers as well as the levels of savings held and other possible sources of income. However, the Group strongly recommended that the term "deferred period" is not used and an alternative term is adopted to describe the waiting period before the policy will start to pay benefits. It was suggested that similar language to that used in car and buildings insurance such as "excess period" might be used.

⁸ www.direct.gov.uk/en/diol1/doitonline/doitonlinebycategory/dg_172666

Financial Underwriting

- 6.69** No financial underwriting (i.e. no questions relating to earnings) for cover up to £1,000 a month. Over £1,000 per month (or provider maximum) applicants would have to state that the cover does not exceed 50% of their earnings at the time of application. The definition of earnings should be standardised across providers. No financial underwriting would apply at time of claim.

Medical and Occupational Underwriting

- 6.70** There was a great deal of discussion concerning medical and occupational underwriting. Similar to Simple Life Cover it was agreed that the underwriting process and risk appetite would be left to individual providers of the product to decide upon.

Cover

- 6.71** The following points cover the parameters of cover:
- Cover could be purchased and costed in units of £100 per month;
 - Additional units could be purchased with minimal underwriting (i.e. the policyholder will be asked if anything has changed since the original application);
 - Cover (and premium) could be reduced if policyholder's circumstances change – for example if cover through employment increases; and
 - Level of benefit chosen would be paid irrespective of level of pay-out from contribution-based state benefits and/or employer benefits.

Choice of Pay-out Period

- 6.72** Several pay-out periods should be offered, with one, three and five year periods suggested as a starting point from which consumer testing could begin. However it was agreed that a Simple Income Replacement Product would not be a “long term” product, i.e. it would not pay out until the policyholder returned to work (however long that might be) or until retirement as this would make the product too expensive. Existing IP products are available for those who wish to purchase long term cover.
- 6.73** While the Group acknowledged that the option of different pay-out periods would add to the complexity of the product, it was felt that to offer just one or two pay-out periods would overly limit choice. It would be anticipated that products could offer several different pay-out periods and it would be essential that the policy literature was clear. The Group did not feel that offering this choice (and the resultant increase in complexity of choice) was inconsistent with the principles of the initiative.
- 6.74** Whichever pay-out period is chosen or offered however, the majority of the Group felt it essential that if a claim was made on the policy and the policyholder returns to

work, a new pay-out period starts once the policyholder has been back at work for six months. That way the policy could truly last for an individual's working life.

Other Features

- 6.75** It was suggested that a Simple Income Replacement Product should be able to be suspended for up to one year to allow for career breaks. The policy would be able to restart at the original premium, with no further underwriting at the restart date. Providers could then write to policyholders with suspended policies at least one month before the year's suspension is up.

Alignment of Features to Simple Products Principles

- 6.76** It was felt that this proposed Simple Income Replacement Product satisfied the criteria for a Simple Product. By retaining full underwriting and leaving this up to individual providers, the Group felt that once a policy has been underwritten, and providing the applicant has been truthful (and the underwriting questions clear and not ambiguous), then there should be no reason why claims are rejected, thus satisfying the "does what it says on the tin" concept.
- 6.77** The product provides a choice of pay-out periods and deferred periods so that consumers could fit the benefit around cover they receive from the state and their employer, thus avoiding over insuring. The Group did acknowledge that by offering these choices the product may not, on the face of it, look simple but, it was agreed that consumers should be given a choice when deciding these important benefits and that ultimately these choices were necessary given the nature of the product. A key to simplicity is simple language and simple terms and conditions, and it is not appropriate to limit choices that seem necessary for this product.
- 6.78** It was suggested that the choice of pay-out period, deferred period and the level of cover could be areas that the Money Advice Service could provide consumer information.

Principle 1: Essential product features that are simply explained, useful for the consumer and meet the needs of the target market.

- 6.79** The product features retained in the Simple Income Replacement Product are only those essential to allow consumers to make an informed choice on the cover available and to avoid buying cover that is not necessary. Key will be the manner in which the features are explained and the signposting given to help consumers with those choices. The product features are useful for the consumer and meet the needs of the target market.
- 6.80** The Group has initiated a roundtable to create a set of questions that employees should ask of their employers regarding workplace entitlements and which will in due course be available on the Money Advice Service website.

Principle 2: Clear, straightforward and standardised language and presentation so that all firms are using the same language and presentation for product information to enable consumers to understand and compare products.

- 6.81** Product terms would be harmonised and product literature simplified and standardised. The Group noted that there was significant industry appetite for these endeavours and that there were precedents for the undertaking of such work.⁹ The ABI is soon to begin the process of reviewing their *Statement of Best Practice on Income Protection*, with this review seen by the Group as an appropriate forum for this work to be undertaken.

Principle 3: Standardised product names that clearly identify the nature of the product.

- 6.82** All products within the range of products would have the same product name (to be determined) and would be badged as belonging to that range through the accreditation process. The Group suggested that a label other than “Income Protection” be sought in favour of a more explanatory, descriptive label. “Income Insurance” and “Income Replacement – if you’re too sick to work” are suggested as suitable alternatives.

Principle 4: A limited number of reasonable conditions, options, and exclusions which are simply explained and understandable.

- 6.83** There will be no standard exclusions within this range of products as each applicant will be individually underwritten. It will be for individual providers to assess applicants according to their risk appetite.

Principle 5: Straightforward and clear purchasing process for the consumer.

- 6.84** The Group were very clear that it should be up to the providers to decide on the process that applicants must go through. Ideally though, a Simple Income Replacement Product would also have a simple process wherever possible.
- 6.85** There will be no financial underwriting (i.e. no questions relating to earnings) for cover up to £1000 a month.

Principle 6: A clear pricing and return structure which is easily understood by the consumer and allows products to be compared with one another. This would include standard methods to calculate prices, interest, charges and appropriate notice for fair and reasonable changes in price, terms or conditions.

- 6.86** Premiums are set at outset and are guaranteed for the life of the policy.

Principle 7: Ancillary fees and charges for exceptional items are transparent, reasonable and predictable.

- 6.87** There are none.

⁹ ABI Statement of Best Practice on Critical Illness Cover, ABI, 2012.

Principle 8: Clear methods of informing the consumer about the current prices and returns and any changes, as well as regular updates on the status and benefits of their product.

- 6.88** The Group suggested that an annual benefit statement should be provided to the customer on the anniversary of a simple income replacement policy each year. This statement would serve to remind the policyholder of the benefits purchased and to ask whether the benefit level is still appropriate for them. This will also be an opportunity for providers to interact with existing clients and to remind them of other products available.

Recommendation

The initial suite of Simple Products should be:

- Easy Access Savings Account;
- 30 day Notice Savings Account; and
- Life Cover.

Further analysis and discussion is required for the development of a Simple Income Replacement Product (if an individual is too sick to work) before inclusion in the Simple Products suite.

In due course other products should be considered for Simple Products accreditation.

7 Endorsement

Introduction

- 7.1** Both the desk based research and the behavioural economics workshops suggested that using a badge¹ is critical to engendering trust, creating a mental shortcut and generally supporting consumer engagement.² This chapter considers the use of badges in more detail.

Impact of Endorsement Schemes

- 7.2** We carried out desk-based research to broaden our understanding of the types of endorsement schemes that currently exist. They range from the British Standards Institution Kitemark which is a registered trademark for products and services audited by the British Standards Institution; to product ratings such as Defaqto star ratings; and standards agencies such as the Foods Standards Agency which recommended that the food industry adopt the “traffic light” system for food labelling.
- 7.3** We found good evidence on the recognition of kitemarks and endorsement schemes but less robust evidence of ensuing consumer action. Research examples are listed below.
- **British Standards Institution research:** Kitemark is recognised by 82% of the UK adult population, and 89% of people trust a Kitemark product more than others;³
 - **Which? research:** 90% of UK consumers were aware of Which?, and 72% of respondents answered that it is likely the Which? Best Buy endorsement scheme would positively influence buying decisions;⁴ and
 - **Fairtrade research:** Fairtrade mark is recognised by 70% of UK consumers.⁵
- 7.4** Our research also found that recognition of an endorsement scheme does not necessarily mean a consumer will be more likely to take action. There was evidence to suggest that some people believe that endorsement schemes are used too much; or that they are just a marketing ploy.

¹ In this report we use the term *badge* to describe the logo that means products meet certain standards.

² *Trust and Financial Market Failure*, John Springford, Social Market Foundation, July 2011.

³ *Kitemark survey results*, BSI/GfK NOP, July 2006.

⁴ *Best Buy Logo: Consumer Awareness*, Which? Insight, December 2011.

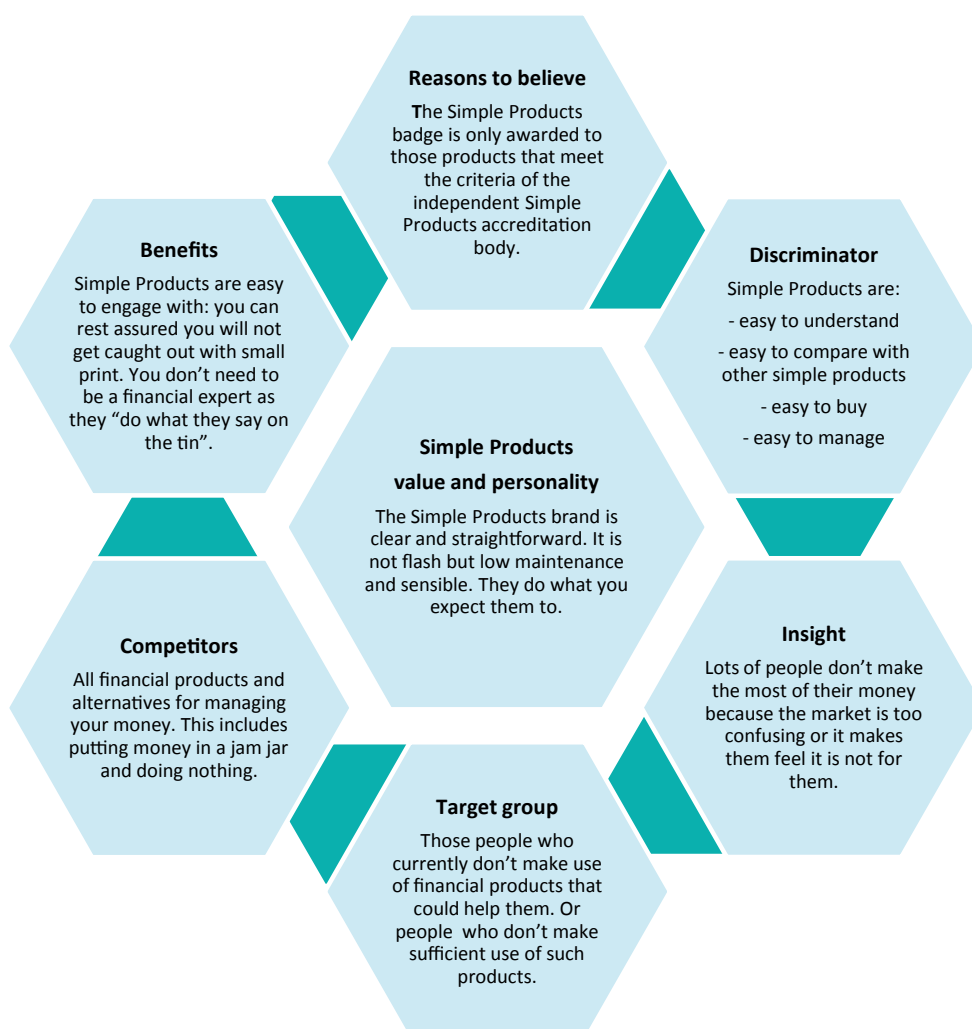
⁵ *Awareness of Fairtrade mark leaps to 70%*, Fairtrade, May 2008.

- 7.5 Endorsement schemes cannot be used in isolation. A successful scheme should help consumers choose a product. To do this, a scheme must be well-designed, have a trusted brand with real substance behind it, and be promoted to consumers. Consumers must also be aware of their product need.

What would the Simple Products badge mean for consumers?

- 7.6 We developed a brand framework, based on a marketing tool, which we used to identify what we believed consumers would expect from a Simple Products brand. The framework identifies seven features that commonly appear in brands: value and personality, benefits, reasons to believe, discriminator, insight, target group, and competitors.
- 7.7 A key area of discussion was the discriminator i.e. what sets Simple Products apart from other products. Our debate focused on whether Simple Products were more about *ease* for consumers or *reliability*. We concluded that ease i.e. easy to understand, compare, buy and manage was more relevant to the Simple Products brand, and would better distinguish it from other products in the marketplace. However, we recognise reliability is important to sustain a brand value.
- 7.8 The framework is explained in more detail in Figure 7.1, which sets out the key components for a Simple Products badge.

Figure 7.1: Simple Products Brand Framework



Conclusion

- 7.9** Endorsement schemes are widely used to help consumers identify products and provide assurance that they meet certain standards. The Steering Group concluded that there would be value in developing a Simple Products badge to help consumers engage with Simple Products. Consumer research is an important next step for the initiative. It would include consideration of the term "Simple Products" (which remains a working title) and its resonance with consumers, as well as the look, feel and impact of the endorsement badge.

Recommendation

A Simple Products badge should be created to signpost Simple Products for the consumer in a complex marketplace.

8 Governance

Introduction

- 8.1** Addressing the savings and protection gap is a long term issue and the initiative will require long term oversight, monitoring and governance. This chapter examines the case for an independent accreditation process, the need for long term oversight and monitoring, who should undertake these tasks, the governance and funding of the body, relationship with the Government, regulators and the industry and how the initiative will evolve.

Why should Simple Products be accredited?

- 8.2** Chapter 7 describes the Simple Products badge and the usefulness it has from a behavioural stand point in being a mental shortcut for consumers and a clear signpost in a complex marketplace with numerous products.
- 8.3** For the concept to take off, both industry and consumer stakeholders believe that some sort of independent product accreditation process is needed, that is free from all vested interests and able to judge products solely on their merits in the interests of consumers.

Why should there be general oversight of the initiative?

- 8.4** Addressing the savings and protection gap is a long term issue and challenge. Many factors will affect the success of the initiative, including broader economic and social developments as well as the specific impact of Simple Products. An independent body of people specifically tasked with overseeing the initiative will keep the issue in focus and is more likely to produce a successful outcome.

Who should accredit Simple Products?

- 8.5** Various options have been considered regarding the accreditation process for Simple Products. At one extreme a new body could be constituted on either a statutory or voluntary basis to carry out this function. At the other extreme a grouping of firms or trade bodies could get together to undertake the work required, with the possibility of an appointed independent figurehead to endorse the work. In the middle ground between these two extremes there are a number of existing bodies who might be well placed to take on the work and graft it onto their existing functions.
- 8.6** In order to assess the options and come to a view the Steering Group considered a number of criteria which they felt needed to be met. These were:

- strict independence of decision making;
- the need for the brand and accreditation body to be able to deal with all types of Simple Financial Products;
- the need to fit well into the existing landscape in terms of relationships with consumers, industry and the authorities, particularly the FSA/FCA;
- the desirability not to create a new body with significant additional costs if that could be avoided, and in particular the need to avoid creating a new statutory body;
- the need to avoid conflicts of interest wherever possible and secure reasonable functional alignment with any host or parent; and
- the practical need to avoid unnecessary cost and process delays on set up.

- 8.7** A number of bodies were considered that might be able to perform the accreditation function.
- 8.8** Regulators (or Government itself) were ruled out. The FSA has always made it clear that this should be an industry initiative and that it would not accredit such products.
- 8.9** Industry bodies were considered, but ruled out because none of them covered the broad retail financial services mass market and because of their perceived closeness to the industry and lack of independence.
- 8.10** Consumer bodies were considered as possible candidates, particularly where they already had a trusted brand. However, it was felt that there may be conflicts with other organisational objectives and roles.
- 8.11** After careful consideration, it was concluded that none of the existing organisations fully met the criteria detailed above. It was agreed that the most practical way forward would be to set up a small independent accreditation body that would own and licence the badge but be serviced and supported by an existing body. The organisation that may be best placed to support the accreditation body is the Money Advice Service which has a statutory remit to enhance the ability of members of the public to manage their own financial affairs and to improve their knowledge and understanding of financial matters.
- 8.12** Further work on the feasibility of the Money Advice Service supporting the accreditation function needs to be completed. A feasibility study can only take place once the Simple Products initiative has completed detailed consumer research. Following this, the implications and costs to the Money Advice Service would be fully evaluated prior to any proposal being put forward into the Service's business planning process.

- 8.13** The Steering Group envisages that regardless of which body acts as to support the Simple Products accreditation function, a separate and distinctive governance structure should be set up to oversee the probity and independence of Simple Product accreditation and carry out other tasks. Details are set out in the next section.

Governance, Functions and Funding

- 8.14** In order to build confidence and ensure probity a small but high level Simple Products Independent Accreditation Board should be constituted. The Board should be comprised of five independent Non-Executive Directors with a Chair with appropriate skills and experience. Between them Board members should have relevant consumer and regulatory experience in financial services or other complex markets and some recent practitioner experience. All would be appointed as public interest directors to discharge the functions of the body. Both HMT and the FSA/FCA should be invited to attend and observe Board meetings.

- 8.15** The functions of the body would be to:

- adopt and keep under review the principles against which Simple Products should be assessed;
- agree which types of product should be eligible for Simple Product status and approve eligibility criteria and minimum standards;
- oversee and agree the process by which firms can apply for eligible product status for specific products;
- agree the Simple Product badge and brand and how its use will be licensed;
- award the Simple Products badge to eligible products following successful applications;
- ensure accredited Simple Products continue to meet minimum standards;
- keep under review the need for new types of Simple Products;
- periodically review whether the Simple Products initiative is achieving the objectives set for it; and
- report annually on the impact of the Simple Products initiative and further actions that might be necessary.

- 8.16** Some initial modest pump priming funds would be needed to set up the body and get the work off the ground, building on the initial work already carried out by the Steering Group. Once a steady state is reached the work should be self-funding, through the

receipt of licence fee income from the use by firms of the trusted products badge on their accredited Simple Products. A full business case should be developed as part of the business plan.

- 8.17** Overall, however, the body and its work would be streamlined and managed in such a way that additional costs were kept low. This would be achieved by the use of smart processes, by issuing clear guidance on Simple Product features, and by the development of good templates for use by firms when applying for accreditation. Existing resources in the industry, consumer groups, the Money Advice Service and other bodies could be harnessed by the secretariat and used to develop the framework for new products.

Relationship with Government, Regulators and Others

- 8.18** The Simple Products initiative would retain a relationship with Government, in view of HM Treasury's interest in ensuring a fair and competitive financial services industry. Any periodic reviews of the initiative carried out by the Simple Products Board would be shared with Treasury Ministers and made public.
- 8.19** The relationship between the Simple Products initiative and the FSA/FCA is of particular importance. Simple Products are designed to meet essential, basic needs and to be non-advice products. Consumers should be equipped to make decisions about whether to buy them on the basis of generic advice provided by the Money Advice Service. In order for them to be simple, easy to understand, easy to compare, easy to buy and easy to manage, they will by definition not be "tailor made" to meet the precise needs of each individual consumer. They are also intended to be a mass market product. We would urge the FSA/FCA to indicate at as early a stage as possible any circumstances in which it may need to use its powers of product intervention. This would provide reassurance to consumers and encouragement to the industry to develop and distribute these products.
- 8.20** The body would have close relationships with both practitioners and consumers in order to help promote the concept of Simple Products, secure industry and consumer input to development work, and stay in close touch with market developments.

Recommendation

There should be a rigorous accreditation process to award the Simple Products badge.
An independent accreditation body should be created.

9 Recommendations and Consultation Questions

Introduction

- 9.1** This chapter brings together the interim report recommendations and the accompanying consultation questions. We welcome your feedback and comments. The details on how to respond to the consultation is set out in Chapter 10.

Recommendations and Consultation Questions

Chapter 5 Simple Financial Products Principles

The set of high-level principles form the guidelines against which Simple Products proposals are assessed.

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

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

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

Chapter 6 Simple Financial Products

The initial suite of Simple Products should be:

- Easy Access Savings Account;
- 30 day Notice Savings Account; and
- Life Cover.

Further analysis and discussion is required for the development of a Simple Income Replacement Product (if an individual is too sick to work) before inclusion in the Simple Products suite.

In due course other products should be considered for Simple Products accreditation.

Consultation question 4: Do you agree with this initial suite of Simple Products?

Consultation question 5: Do you have any comments on product design?

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

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

Chapter 7 Endorsement

A Simple Products badge should be created to signpost Simple Products for the consumer in a complex marketplace.

Consultation question 8: Do you agree with this approach?

Chapter 8 Governance

There should be a rigorous accreditation process to award the Simple Products badge.
An independent accreditation body should be formed.

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

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

Research Recommendations

Ongoing research is required to:

- evaluate the impact of the initiative on reducing the savings and protection gap;
- understand whether people are finding it easier to buy financial products to meet their needs; and
- calculate the “simplicity dividend”.

Consultation question 11: Do you agree that ongoing and systematic consumer research is required to support the Simple Products initiative?

10 Next Steps

Next Steps

10.1 Further consumer research is required to:

- develop and test straightforward language for Simple Products;
- test the effectiveness of the proposed straightforward processes and product design;
- test the look, feel and impact of a Simple Products badge; and
- to establish how best to promote the Simple Products brand.

10.2 The research can only be completed once all the consultation responses have been received.

10.3 Both the consultation responses and consumer research will provide the basis to prove the proposed Simple Products concept and underpin the business case to support the creation of the accreditation body. This work will inform the final report which will be published in February 2013.

How to respond to the consultation

10.4 The closing date for responses is 12th October 2012. Please send your responses by e-mail, if possible, to simpleproducts@abi.org.uk. Alternatively, responses can be posted to:

Simple Products Interim Report
Association of British Insurers
51 Gresham Street
London EC2V 7HQ

10.5 All written responses will be made public unless specifically requested otherwise. Please indicate clearly in an email or covering note, if your response or part of your response is to remain confidential. Standard confidentiality disclaimers included at the bottom of emails are not sufficient.

Acknowledgments

This report is the result of several months of widespread consultation and input. The Steering Group are grateful for the time and effort put in by the Chairs and members of the Working Groups, whose discussions and suggestions have informed the content of this report.

Members of Steering Group

Carol Sergeant, CBE	Chair	Simple Financial Products Steering Group
Otto Thoresen	Director General	Association of British Insurers
Angela Knight, CBE	Chief Executive	British Bankers' Association
Adrian Coles, OBE	Director General	Building Societies' Association
Christine Farnish	Chair	Consumer Focus
Tony Hobman	Chief Executive	Money Advice Service
Peter Vicary-Smith	Chief Executive	Which?
Sheila Nicoll (Observer)	Director of Conduct Policy	Financial Services Authority
Alison Cottrell (Observer)	Director, Financial Services	HM Treasury

Chairs of Working Groups

<i>Protection Working Group</i>		
Richard Verdin	Protection Director Chair	Aviva ABI Protection Committee
<i>Savings Working Group</i>		
Adrian Coles, OBE	Director General	Building Societies' Association
<i>Taking Products to Market Working Group</i>		
Tony Hobman	Chief Executive	Money Advice Service
<i>Principles Working Group</i>		
Doug Taylor	Chief Financial Services Advocate	Which?

Members of Working Groups

Lucy Malenczuk	Policy Advisor, Financial Services	Age UK
Andy Milburn	Head of Marketing	Ageas Protect
Nick Kirwan	Assistant Director	Association of British Insurers
Helen White	Assistant Director	Association of British Insurers
John Yeo	Policy Adviser	Association of British Insurers
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Martin Shaw	Chief Executive	Association of Financial Mutuals
Linda Smith	Senior Technical Analyst	Association of Independent Financial Advisers
Will Kentish	Head of Individual Income Protection	Aviva
Rob Parsonage	Head of Protection Product	Barclays
Mike Shuttleworth	Manager, Business and Personal Banking Solutions	Barclays
Patricia Easterbrook	Policy Director, Retail	British Bankers Association
Peter Tyler	Policy Director, Retail	British Bankers Association
Colette Best	Mortgage Policy Advisor	Building Societies' Association
Brian Morris	Head of Savings Policy	Building Societies' Association
Sarah Brooks	Director of Financial Services	Consumer Focus
Rob Quayle	Managing Director	DirectLife
Nick Jones	Brand & Marketing Manager	Exeter Family Friendly
Adam Phillips	Chair	Financial Services Consumer Panel
Teresa Fritz	Panel Member	Financial Services Consumer Panel
Fiona Fry	Panel Member	Financial Services Consumer Panel
Iain Mallon	Director of Protection Marketing	Friends Life
David McCormack	Senior Proposition Manager	Friends Life
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Lucy Sterne	Head of Financial Capability	HM Treasury
Alice Mosby	Policy Advisor, Financial Capability	HM Treasury
Bhavika Chauhan	Policy Advisor, Insurance and Savings	HM Treasury
Bruno Genovese	Head of Savings	HSBC
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Ted Hart	Head of Regulatory Strategy – UK	Legal & General
Mary Hollinshed	Compliance Strategy Director	Legal & General
Richard Davies	Head of Cash ISA Strategy	Lloyds Banking Group
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Robin Willison	Head of Direct Sales and Operations	LV=
Ann Govier	Head of Senior Remuneration and Employee Share Schemes	Marks and Spencer
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Alan Martin	Head of Product Strategy and Innovation	Swiss Re
Malcolm Small	Director of Policy	TISA
Vera Cottrell	Principal Policy Advisor	Which?
Dominic Lindley	Principal Policy Advisor	Which?
Ben Ruffels	Head of Public Affairs	Virgin Money
Sarah Lawrence	Group Savings Product Manager	Yorkshire Building Society
Gary Lacey	Savings Product Manager	Yorkshire Building Society

Appendix A **Steering Group Terms of Reference**

Background

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

Purpose of the Group

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

Specifically, these products should:

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

Remit

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

The group will establish working groups to decide:

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

- how the product brand should be approved and by whom.

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

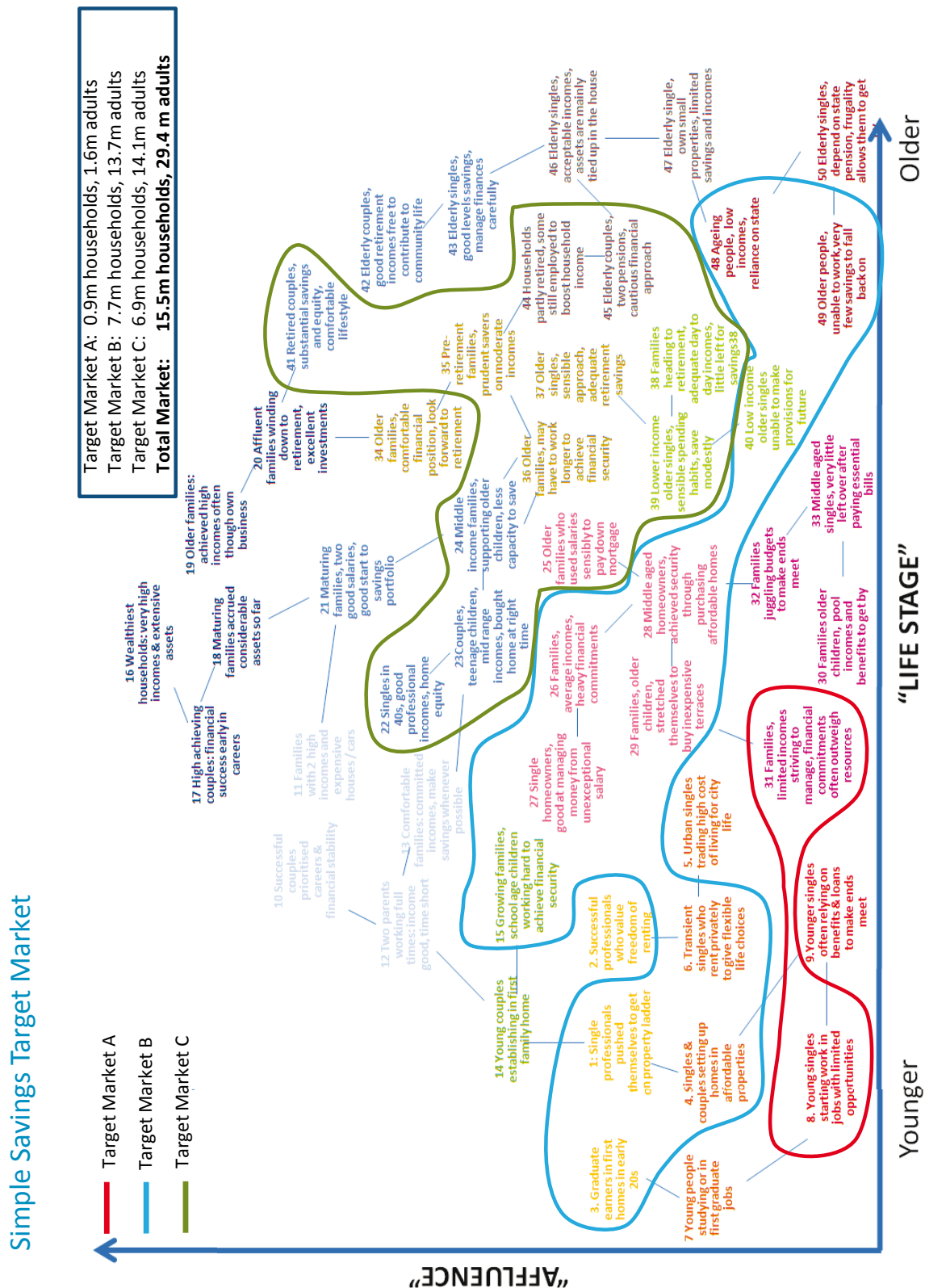
Governance

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

Output

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

Appendix B Target Market Segmentation



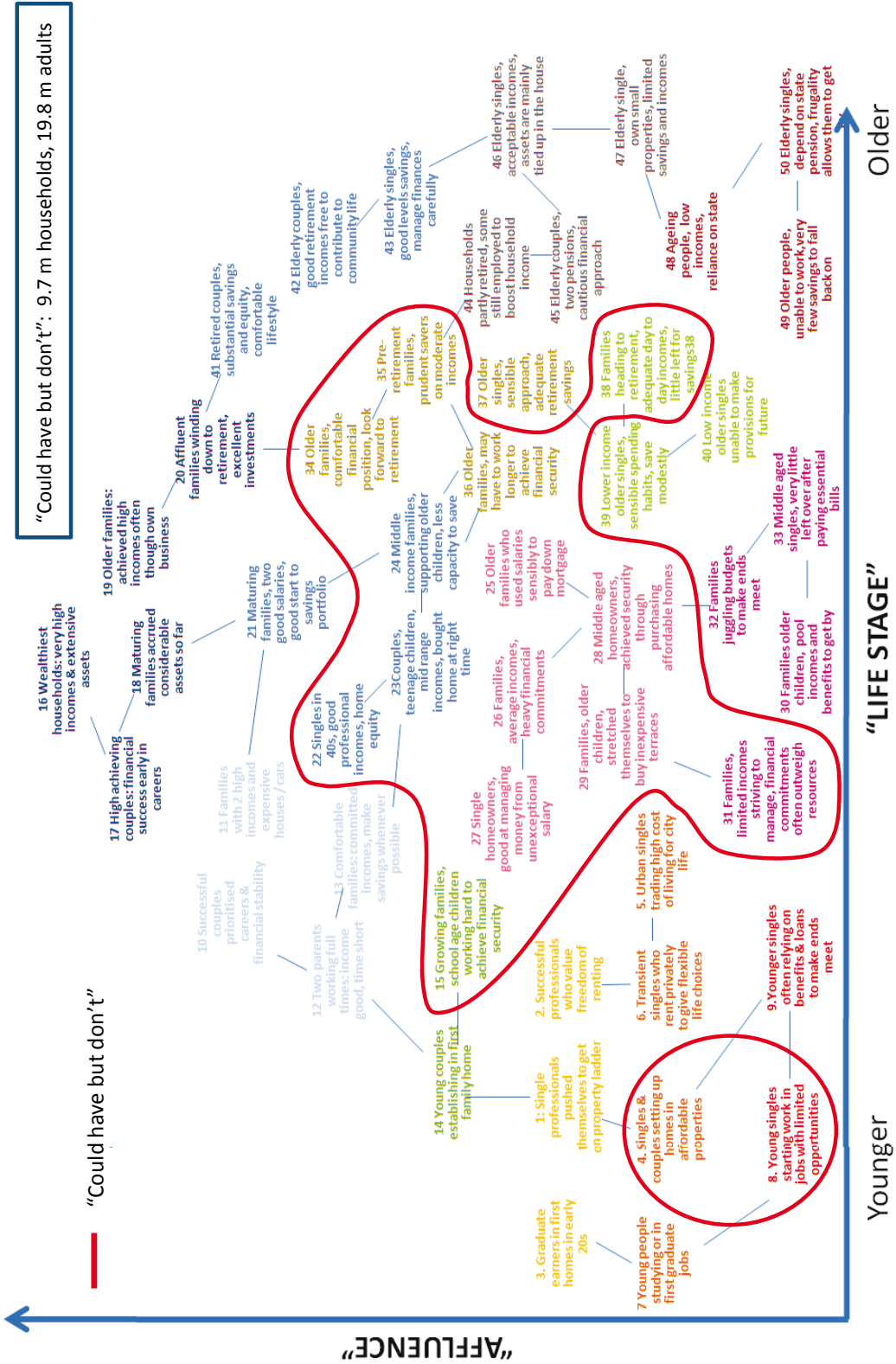
Explanation key for attitudes and behaviours tables

Online			Telephony				Branch		Obtaining information			
Internet access	Online banking preference	Price comparison websites	Telephone banking preference	Mobile banking preference	Mobile owned	Smart phone owned	Branch banking preference	Post Office	IFA	Finance press	Friends/ family	Self
Whether consumers have access to the internet	Whether online is a preferred channel for day-to-day banking	Whether consumers use price comparison websites, either generally or for financial services	Whether automated telephone banking is a preferred channel for day-to-day banking	Whether mobile (m-banking) is a preferred channel for day-to-day banking	Whether consumers own a mobile phone	Whether consumers own a smart phone	Whether branch is a preferred channel for day-to-day banking	Whether Post Office is a preferred channel for day-to-day banking	Whether consumers obtain financial information from IFAs	Whether consumers obtain financial information from the financial press	Whether consumers obtain financial information from friends/ family	Whether consumers make financial decisions without obtaining financial information

Simple Savings Target Market Attitudes and Behaviours

KEY		Online			Telephony				Branch		Obtaining information			
✓	High usage	Internet access	Online banking preference	Price comparison websites	Telephone banking preference	Mobile banking preference	Mobile owned	Smart phone owned	Branch banking preference	Post Office	IFA	Financial press	Friends/ family	Self
	Average usage													
✗	Low usage													
Target Market A	Group 8		✗		✓	✓		✓	✓	✓			✓	
	Group 31				✓	✓					✗	✗		✓
Target Market B	Group 1	✓		✓			✓	✓	✗	✗			✓	✗
	Group 3	✓			✓		✓	✓	✓	✗	✓	✗	✓	✗
	Group 4			✓	✓	✗	✓	✓		✗		✗	✓	✗
	Group 6	✓			✓		✓	✓		✗	✓	✗	✓	
	Group 15	✓					✓	✓				✗		
	Group 26	✓			✓		✓	✓				✗		
	Group 27				✗		✗			✗				
	Group 28										✓	✗		✓
	Group 29				✓		✓				✓	✗		
	Group 40			✗		✓	✓	✗			✓	✗		✓
	Group 48	✗	✗	✗			✗	✗	✓	✓	✓	✗	✗	✓
	Group 49	✗	✗	✗	✓		✓	✗		✓	✓	✗	✗	✓
	Group 22	✓	✓			✗			✗	✗	✓	✓		✗
	Group 23	✓	✓		✓	✗				✗				✗
	Group 24	✓	✓							✗				
Target Market C	Group 25					✓						✗		
	Group 35				✗	✗		✗					✗	
	Group 36							✗						
	Group 37				✗			✗		✓		✓		
	Group 38					✗		✗		✓	✗	✗	✗	✓
	Group 39	✗	✗			✗		✗		✓		✗	✗	✓
	Group 41	✓	✓		✗	✗		✗			✓	✓		✗
	Group 44				✓			✗		✓			✗	
	Group 45				✗	✗		✗	✓	✓			✗	✓

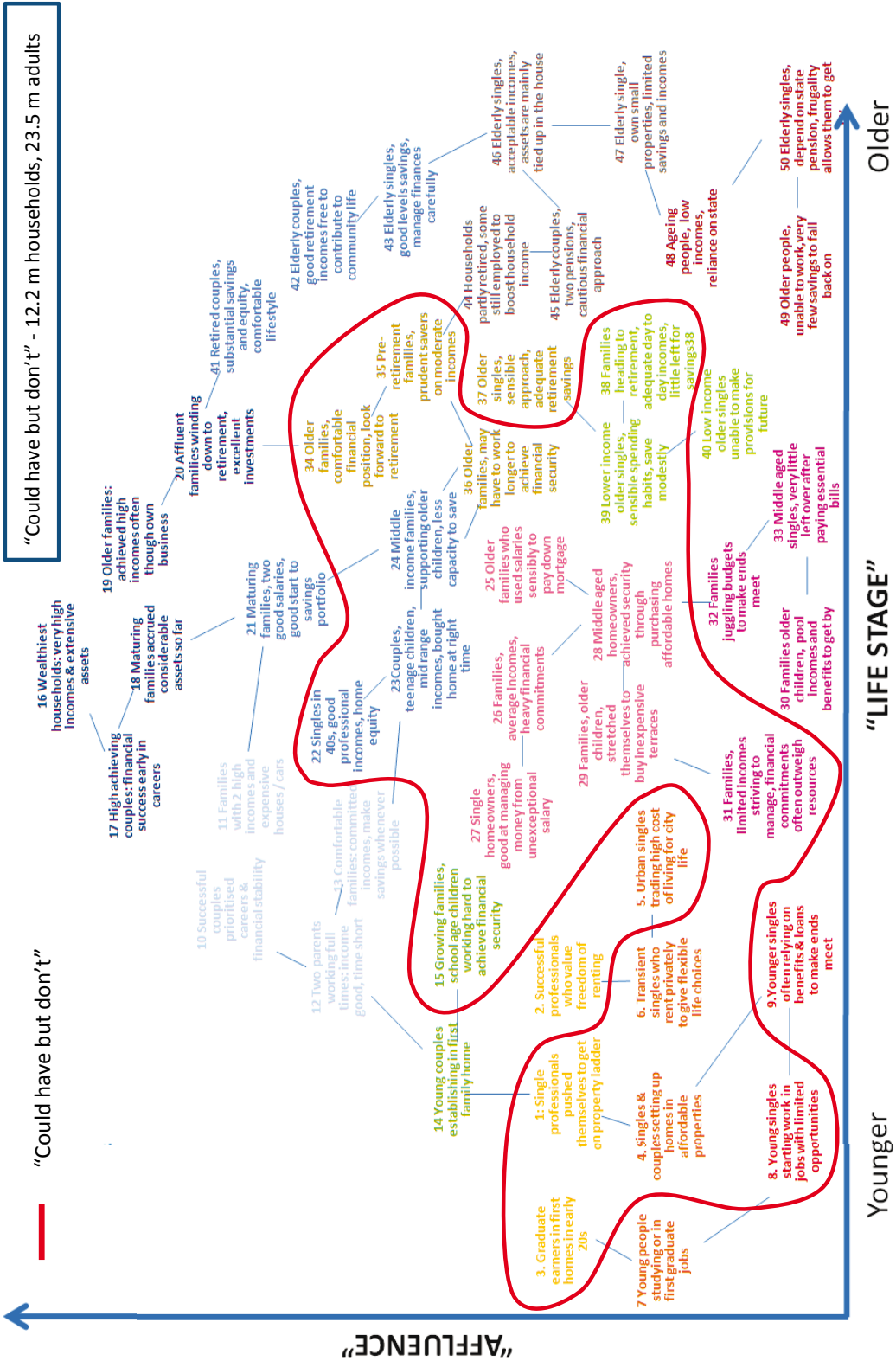
Simple Life Cover Target Market



Simple Life Cover Target Market Attitudes and Behaviours

KEY		Online			Telephony				Branch		Obtaining information			
✓	High usage	Internet access	Online banking preference	Price comparison websites	Telephone banking preference	Mobile banking preference	Mobile owned	Smart phone owned	Branch banking preference	Post Office	IFA	Financial press	Friends/ family	Self
✗	Low usage													
"Could have but don't"	Group 4		✗	✓	✓	✗	✓	✓		✗		✗	✓	✗
	Group 8		✗		✓	✓		✓	✓	✓			✓	
	Group 15	✓						✓				✗		
	Group 22	✓	✓			✗			✗	✗	✓	✓		✗
	Group 23	✓	✓		✓	✗				✗				✗
	Group 24	✓	✓							✗				
	Group 25					✓						✗		
	Group 26	✓			✓		✓	✓				✗		
	Group 27				✗		✗			✗		✗		
	Group 28										✓	✗		✓
	Group 29				✓		✓				✓	✗		
	Group 31				✓	✓					✗	✗		✓
	Group 34	✓	✓			✗		✗				✓		✗
	Group 35				✗	✗		✗					✗	
	Group 36							✗						
	Group 38					✗		✗		✓	✗	✗	✗	✓

Simple Income Replacement Target Market



Simple Income Replacement Target Market Attitudes and Behaviours

KEY		Online			Telephony				Branch		Obtaining information			
✓	High usage	Internet access	Online banking preference	Price comparison websites	Telephone banking preference	Mobile banking preference	Mobile owned	Smart phone owned	Branch banking preference	Post Office	IFA	Financial press	Friends/ family	Self
✗	Low usage													
"Could have but don't"	Group 1	✓		✓			✓	✓	✗	✗			✓	✗
	Group 3	✓			✓		✓	✓	✓	✗	✓	✗	✓	✗
	Group 4			✓	✓	✗	✓	✓		✗		✗	✓	✗
	Group 6	✓			✓		✓	✓		✗	✓	✗	✓	
	Group 8		✗		✓	✓		✓	✓	✓			✓	
	Group 15	✓						✓				✗		
	Group 22	✓	✓			✗			✗	✗	✓	✓		✗
	Group 23	✓	✓		✓	✗				✗				✗
	Group 24	✓	✓							✗				
	Group 25					✓						✗		
	Group 26	✓			✓		✓	✓				✗		
	Group 27				✗		✗			✗				
	Group 28										✓	✗		✓
	Group 29				✓		✓				✓	✗		
	Group 31				✓	✓					✗	✗		✓
	Group 34	✓	✓			✗		✗				✓		✗
	Group 35				✗	✗		✗					✗	
	Group 36							✗						
	Group 38					✗		✗		✓	✗	✗	✗	✓
	Group 39	✗	✗			✗		✗		✓		✗	✗	✓

Appendix C Behavioural Economics

Introduction

Behavioural economics seeks to incorporate lessons from psychology into economic models of decision-making. The basic insight of behavioural economics is that human behaviour is guided not by an economically rational super-computer that can analyse the costs and benefits of each action. Instead, it is led by our very human, sociable, emotional and sometimes fallible brain. Psychologists suggest that two processes operate in the brain. One is reflective (controlled, effortful, deductive, slow and self-aware). The other is automatic (uncontrolled, effortless, emotional, fast and unconscious). In real life, the distinction is not so clear-cut: a dynamic mix of both reflective and automatic processes generally governs our behaviour.¹










For policymakers facing policy challenges such as crime, obesity environmental sustainability, or financial engagement behavioural approaches offer a potentially powerful new set of tools. Applying these tools can lead to low cost, low pain ways of “nudging” citizens – or ourselves – into new ways of acting, by going with the grain of how we think and act.²

¹ *Transforming Financial Behaviour: developing interventions that build financial capability*, Consumer Financial Education Body, July 2010.

² *MINDSPACE Influencing Behaviour Through Public Policy*, Institute of Government (Paul Dolan, Michael Hallsworth, David Halpern, Dominic King, Ivo Vlaev), 2010.

MINDSPACE: A Framework for Behavioural Economics

We used the MINDSPACE framework (see table³ below) to structure a workshop on building consumer engagement. The MINDSPACE framework was developed by the Institute of Government for the Cabinet Office, and it captures the nine most robust effects (that we know of), that operate largely (but not exclusively) on the automatic processes that govern our behaviour. It is a helpful checklist for applying the behavioural economics theory to public policy challenges.

	Messenger	Who's telling me this?
	Incentives	Will I lose out?
	Norms	What are people around me doing?
	Defaults	What's the auto – action?
	Salience	Is it interesting to me?
	Priming	Am I set for it?
	Affect	Do I want to approach – or avoid?
	Commitments	Am I being true to my word?
	Ego	Am I the kind of person who does this?

³ *Transforming Financial Behaviour: developing interventions that build financial capability*, Consumer Financial Education Body, July 2010.

Appendix D Other Simple Savings Products

The table below sets out a summary of potential high-level criteria for possible simple cash deposit products consider by the Working Group and which could be considered at a later phase of the initiative:

	Simple Regular Savings Product	Simple Fixed Term Product
Product rationale	To encourage regular saving behaviour	To tie up money for a known period in return for certainty of rate
Minimum balance/deposit	[£10] or less	[£500] or less
Maximum balance	Not less than [£x]	Not less than [£x]
Method of deposit	No restriction – all methods allowed – none prescribed	No restriction – all methods allowed – none prescribed
Frequency of deposit	Regular deposits required -provider sets frequency	Lump sum, with no additional deposits allowed
Charges	No charges for day-to-day usage of the account. Charges for exceptional items, such as duplicate statements or replacement passbooks, allowed	No charges for day-to-day usage of the account. Charges for exceptional items, such as duplicate statements or replacement passbooks, allowed
Withdrawal restrictions	No withdrawal restrictions	Withdrawals allowed – subject to [90] days loss of interest
Limit on number of accounts per distribution channel	One product, per brand, per channel	One product, per brand, per channel
Interest restrictions	No introductory bonus No tiered rates Terminal bonus allowed	Interest rate fixed for a specified term from the date of opening. [No short term low rate allowed to be imposed pending formal account opening] No tiered rates
Default product at end of term?	N/A	Product defaults to simple easy access account after 12 months, in absence of customer instructions to the contrary
Compulsion to offer via specified channels?	No	No
Should there be a requirement for pricing of the products to be the same irrespective of the delivery channel?	No	No

Appendix E Simple Life Cover Policy

Introduction

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

Cover provided by this policy

Who is covered by the policy?

Only you are covered.

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

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

- The payment of the sum assured, or
- The policy end date

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

Who do you pay the cash sum to?

The cash sum is paid to your chosen representative.

Payment of premiums

When are premiums to be paid?

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

Will the amount I pay ever change?

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

What happens if I don't pay the premiums?

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

General Conditions

- If your date of birth as shown in your policy schedule is incorrect we will adjust the cash sum to the amount that would have applied if your correct date of birth had been given.

- If you intentionally give us an incorrect date of birth or fail to disclose material facts then we have the right to cancel this policy.
- This policy is governed by English Law
- We may make changes to the policy terms and conditions that we reasonably consider appropriate due to a change in any applicable legislation, regulation or taxation. If this happens we will notify you in writing in advance of the change.

How to...

Contact us

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

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

Make a claim

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

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

Cancel this policy

You can cancel this policy at any time.

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

Make a complaint

If you wish to complain about the service you have received from us or you would like us to send you a copy of our internal complaints handling procedure please contact us on xxxxxxxxxxxxxxxxxxxx. Alternatively you can write to us at xxxxxxxxxxxxxxxxxxxx. If you remain unsatisfied you can complain to xxxxxxxxxxxxxxxxxxxxxxxxxxxx.

Making a complaint will not affect your legal rights.

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

The Financial Services Compensation Scheme (FSCS)

The Financial Services Compensation Scheme (FSCS) is designed to pay customers compensation if they lose money because a firm is unable to pay them what they owe

for any reason. Your ability to claim from the scheme and the amount you may be entitled to will depend on the specific circumstances of your claim. Most customers, including most individuals and small business are covered by the scheme. You can find out more about the FSCS (including amounts and eligibility to claim) by visiting its website www.FSCS.org.uk or calling 0800 678 1100.

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

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