



# PACIFIC LIFE RE

Simple Products Interim Report  
ABI  
51 Gresham Street  
London EC2V 7HQ

12 October 2012

Dear Sirs,

## Simple Products Interim Report – Consultation Response

### Overview

Pacific Life Re welcomes this initiative as a much-needed catalyst for raising awareness about the widespread need for protection cover and enhancing access and ease of purchase for a large proportion of the UK population. As a protection reinsurer, our comments and response focuses on this product range rather than the savings products contained in the initial proposal.

We agree that a 'Simple Products badge' is necessary to promote consumer understanding and awareness of the initiative. However, we feel that creating a separate Accreditation Board might prove unnecessarily bureaucratic and may create an ambiguous relationship with FCA. We suggest that a feasible alternative would be for the FCA to accredit simple products, as their intention is to be more active in product design.

In many cases individual needs will extend beyond the scope offered by Simple Products. We would encourage this to be recognised in the implementation of this initiative. In particular we would recommend that general information on how to seek expert financial advice should form part of any generic guidance provided by the Money Advice Service (MAS). Equally, MAS guidance should highlight that individual Income Protection (IP) cover may be inappropriate for individuals on very low earnings. This should include a clear minimum lower earnings threshold.

The initial scope of the proposal is disappointingly limited in the products that are included. We believe that income protection is a basic, high priority insurable need for a large number of people and should have been included in the product range considered for the first phase of the initiative. While we recognise the concern around the perceived complexity of IP insurance we believe it is possible to design simple insurance products providing valuable long-term protection against loss of income due, not only to sickness, but also to unemployment, which could be bought safely and easily by a large proportion of people who need this cover. A basic, standard product, with respected independent accreditation, could provide a useful "entry level" purchase which would encourage a

large number of people to buy essential cover with more confidence. We would therefore encourage further work in this area, as a priority.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'D G Heeney'.

David Heeney  
Chief Marketing Officer, UK & Ireland

**Our responses to the specific consultation questions are detailed below.**

*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?**

Yes, provided they remain very high-level, in order to be relevant to a wide range of products.

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

The current uncertainty over the future direction of the Money Advice Service means greater clarity is needed around how non-advised sales might operate in practice.

HMT state that the MAS will offer only generic advice, but it is marketed to consumers as “providing free and impartial guidance on financial matters”. An average consumer might therefore have a magnified perception of the level of advice and protection offered. We believe there needs to be a precise and easier to understand definition of “generic advice”.

We also believe that the simplicity of the buying process is as important, if not more so, than the simplicity of the product features. In particular, we believe it should be possible to devise a much simpler underwriting process, perhaps via a common application form, that could still be offered at an affordable and good value price. There will always be scope for more complete selection criteria to support lower risk costs (for those lucky enough to pass through such a filter) but this would, at least in part, be at the cost of a more expensive process.

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

Yes, we agree there should be a limitation in principle.

However, we believe that there may be circumstances in which providers could be allowed to offer different ‘versions’ of a Simple Product, to cater to specific consumer needs, provided the differences are obvious and all satisfy the accreditation criteria.

*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?**

We believe income protection is a high priority basic insurable need, unmet for a large number of people so it is disappointing that this is excluded from the initial suite. The real issues consumers face are around the complexity of the processes they are required to go through to buy long-term insurance products.

Much of this complexity stems from the extensive options offered to enable these products to be tailored to individual customer needs and the confusion faced by customers in understanding what those needs are. Greater clarity around state and employment benefits would facilitate the selection of appropriate cover levels, deferred and benefit periods. We would encourage the Government to consider compulsory issue of annual employee benefit statements by employers. This would pave the way for straightforward generic advice to be offered to enable individuals to select appropriately from the options which we consider should be retained within the scope of a Simple IP Products.

More generally we feel that the UK financial services sector already offers easy access to simple savings products so we question whether this should be a priority for the initial suite. Life assurance is also a straightforward concept and simple products offering good value for money to customers are already available although we do see scope for greater streamlining and standardisation of underwriting and application processes for both simple life and IP products.

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

We see arguments for and against requiring the exclusion of Terminal Illness from the Simple Life Assurance product. Whilst this is a significant exclusion of a benefit, believed by many to be valuable, the interpretation of what constitutes a terminal illness can also be a source of confusion for consumers.

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

- AND -

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

We believe it is possible to design a simple IP product providing valuable long-term protection against loss of income due, not only to sickness, but also to unemployment, which could be bought safely and easily by a large proportion of people who need this cover. We therefore encourage further work in this area, as a priority.

The concept of not financially re-underwriting benefit payments at claim stage is an important positive feature.

A basic, standard product, with respected independent accreditation, could provide a useful "entry level" purchase which would encourage a large number of people to buy essential cover with more confidence. Fuller supplementary coverage could then be provided on an advised basis; information on how to seek expert advice should form part of any generic guidance provided by the MAS.

Equally, MAS guidance should highlight that IP cover may be inappropriate for individuals on very low earnings. This should include a clear minimum lower earnings threshold, to avoid loss of means tested state benefits. We therefore encourage the Government to impose the compulsory issue of annual employee benefit statements by employers.

Clarity around state and employment benefits would also facilitate the selection of appropriate cover levels, deferred and benefit periods.

Potentially, the benefit payment period could be linked to the selected deferred period to reflect the typical period of remaining inability to work, given this will be longer for longer deferred periods, but customer choice can also be supported.

We believe a clear and durable statement is needed from government to reassure consumers that the state benefit qualification criteria and fiscal policy will not seek to penalise them for making personal provision against adversity, but rather reward such behaviour. This in turn would help to mitigate the risks of providing generic advice around making such provision.

*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?**

Yes. Independent "kite-marking" can be very helpful in providing reassurance to customers that they can buy such accredited products safely and with confidence.

Consistent sign-posting of Simple Products could also work as part of a 'branding' effort, to increase general awareness, enhance credibility, and address potential negative perceptions of insurance.

We suggest also creating a name/label that fosters wider consumer awareness (as achieved by "ISA"). Potentially the word 'simple' might be associated with 'simplistic'.

We also believe that there is scope for rationalising Key Features Documents and other regulatory disclosure requirements for such products.

*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?**

Whilst we agree with the approach of an accreditation process to award the Simple Products badge, establishing a separate Accreditation Board might prove unnecessarily bureaucratic or redundant, as well as creating an ambiguous relationship with the FCA.

We suggest that a feasible alternative would be for the FCA to accredit simple products, as their intention is to be more active in product design.

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

The approach for accrediting the Simple Product "badge" should be to ensure these products provide customers with a fair solution and are easy to compare and purchase.

The criteria must be set high enough to protect customers from making inappropriate or financially detrimental purchases, whilst not compromising price competitiveness or the potential for innovation.

*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?**

Yes, consumer research will always be valuable in monitoring trends in perceptions and attitudes.

However, we believe it will be difficult to draw concrete conclusions about the success or otherwise of this initiative in the short/medium term.

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

John Ormond House  
899 Silbury Boulevard  
Central Milton Keynes  
Buckinghamshire  
MK9 3XL  
t 01908 605000  
f 01908 201711  
e [info@personal-group.com](mailto:info@personal-group.com)  
[www.personal-group.com](http://www.personal-group.com)

Dear Carol,

It is with great interest that I have recently learned of the Sergeant Review, through Ron Wheatcroft and Paul Mahoney at our strategic partners Swiss Re.

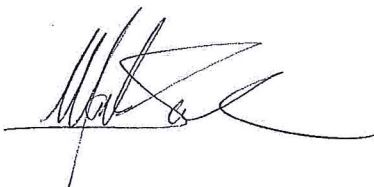
Personal Group has actually been selling simple insurance products since 1984. Our products are very straight forward, easy to understand with little qualification of eligibility. We have not referred to them as Simple Products but that is what they are. Key to our success is the fact that we distribute our products through the workplace. We currently have over 250,000 policy holders and more than 400 large UK Employers offering our products to their staff. Any person who has one of our policies will have met one of our team. Our salaried sales team go into the workplace of our clients and spend 15 to 30 minutes with each individual explaining our products. This face to face approach of our team of Executives enables the consumer to ask questions of another human being rather than relying solely on an internet or call centre interaction. It also brings awareness of any shortfalls in their personal protection needs and takes the product to the consumer, as oppose to relying on it happening the other way round.

Our Income Protection, Death Benefit and Hospital Cash Plans are not rated on gender or medical history (in fact we don't ask any medical questions), enabling transparency of the benefits and cost. Only Income Protection is priced on age. It is the Simple Income Replacement product, as outlined in your review, that has captured my attention as it is very similar the product we offer today. We have kept the design of our product uncomplicated so that it is simple to understand and performs as a policyholder would expect when they need to claim.

I am keen to help support you in this review in any way I can. I believe a Simple Income Replacement product should be one of the products that makes it to the final report as a consequence of this review. We have developed a simple product with which we have experienced great success in distribution through the workplace. We know there is demand for our product and that this is a model that could work more widely in our economy if only more people knew of its existence and had a simple and straightforward way of getting the cover.

I am very happy to expand on the details of our unique products and marketing methods above if you feel that would aid your endeavours. I look forward to hearing from you.

Kind Regards,



Mark Scanlon  
Chief Executive

# **RBSG Feedback to: Sergeant Review of Simple Financial Products: Interim Report – August 2012**



## **Introduction and Structure of this Response**

The Royal Bank of Scotland Group (**RBSG**) welcomes the opportunity to respond to the Sergeant Review of Simple Financial Products: Interim Report, which was issued in August 2012 as part of the Government's Simple Financial Products initiative.

Our full responses to the 11 consultation questions are set out in pages 2 to 5 of this response and detailed below (under the heading "Key Points") are a number of our key points.

## **Key Points**

RBSG has been involved in the development of the Interim Report through the working groups involved in the Sergeant Review. RBSG supports the Government's desire to improve simplicity and transparency in these important product areas. It is important that customers are saving and have basic protection in place and that we provide support to enable customers to make better financial choices. We support the drive for simple financial products and this is very much aligned with our own commitment to simplify our financial services products and processes for our customers. For example we recently radically simplified our RBS and NatWest brand instant access products by moving from 11 products to just one product per brand for new customers.

We are keen to ensure that the end result of this initiative achieves the right balance between being helpful for customers and the commercial viability that is essential for this initiative to be sustainable.

We are pleased to see that this consultation on the Interim Report is happening and that consumer research will be taking place – this is essential. It will test the demand for simple products and, if there is demand, their design and affordability.

We have no comments on the design of the life insurance product but in relation to the savings products we continue to have doubts about the commercial viability of these products and their attractiveness to consumers, particularly given the proposed products would not have bonus rates or tiers. We think that the design of the Simple Income Replacement Product needs to go back to the drawing board but we do believe it is possible to design a product which is simple, with the right people round the table. A starting point here should be trying to align the product features to insurance products that customers know and understand such as home insurance.

The accreditation proposals give us concern as we think there will be expense involved in creating a new body without the benefit of an established reputation. For this reason we echo the points made by the British Bankers' Association (BBA) and strongly suggest that the feasibility of using a commercial accreditation body is explored in parallel to the current proposals.

## **Industry Body Responses**

RBSG has contributed to and supports the responses that the BBA and the UK Cards Association have submitted to this consultation.

## **Next Steps and Contact Details**

Should you require any further information, RBSG would be happy to discuss this feedback further. Please address any questions on these comments in the first instance to Sara Scott, The Royal Bank of Scotland, Retail Compliance, 2nd Floor, Business House B, RBS Gogarburn, PO Box 1000, Edinburgh EH12 1HQ. [REDACTED]



**RBSG Feedback to:  
Sergeant Review of Simple Financial Products:  
Interim Report – August 2012**



**RBSG Responses to Sergeant Review of Simple Financial Products:  
Interim Report**

**Chapter 5 – Simple Financial Products Principles**

**Q1. Do you agree that there should be a set of high-level principles?**

Yes.

**Q2. Do you have any comments on the proposed principles?**

No.

**Q2. Do you agree that firms should be limited to one issue of each Simple Product type, per brand, per channel?**

Yes.

**Chapter 6 – Simple Financial Products**

**Q4. Do you agree with this initial suite of Simple Products?**

Yes.

**Q5. Do you have any comments on product design?**

**Savings products:**

Proposition: We are pleased to see that the Interim Report recognises that more work needs to be done as part of this initiative to explore how to engage customers emotionally in savings. We think there are a number of reasons why the target population does not save and product complexity is only one of them. Customers need to emotionally engage in saving a little bit every month to create a rainy day fund. Something which RBSG does just now to try and get our customers more engaged in saving is our online savings tool, which helps customers set a savings goal and track their progress towards it. This Savings Goal tool has been awarded the acclaimed "4 star" accreditation from the Fair Banking Foundation, due to its helpful and innovative features. RBSG is unique in the market in having this accreditation.

We also have a monthly budget calculator on our website to help customers identify how much they could be saving each month.

Better education is also needed so that customers see the value in savings. This probably needs to be focussed on the next generation. Will this be something that the Money Advice Service (MAS) could deliver?

Commercial viability and attractiveness: We remain in doubt about the commercial viability of these products for firms which choose to provide them and their attractiveness to consumers, particularly given that the proposed products will not have bonus rates or tiers. The products may not be priced with a rate which is attractive to customers compared to other products which do have bonus rates and/or tiers.

Maximum balance: We do not think there needs to be a maximum balance for these products. In any case it should not matter as the target market for these accounts will be those with minimal funds to invest, therefore very few customers should meet or breach any upper limit.

## **RBSG Feedback to: Sergeant Review of Simple Financial Products: Interim Report – August 2012**

Other: Along with other BBA members we will be working with the BBA on their review of the Annual Equivalent Rate (AER) and on development of a summary box for simple deposits.

### **Life insurance product:**

We have no comments on the design of the life insurance product.

#### **Q6. Do you have any comments on the proposed design for a Simple Income Replacement Product?**

We do not think that the proposed design of this product is simple or what customers want. It is fundamentally flawed and does not meet the simple product principles. It has been based on long term income protection insurance which we believe is not the right starting point for an affordable and simple product that meets customer needs.

For example it does not provide unemployment cover. In today's market this is essential cover that customers need and want so we believe it must be included.

#### **Q7. Do you think this product can be made sufficiently straightforward to qualify as a Simple Product?**

Yes, but only by ripping up the current proposals and starting again with the right people round the table and a real commitment to simplicity and customer needs. To achieve the aims of this initiative the product has to be simple, affordable, suitable for the mass market and have a genuinely simple sales process.

The product could be based on a regular premium mortgage payment protection product, widening the scope to not only cover mortgage payments but also rent, bills etc.

It could also be aligned to products which customers do understand like home insurance – for example by making it a product which is renewed annually.

We would suggest a 2 year maximum pay out to keep the product affordable.

Above all customer research should be done to establish what customer's needs are for a Simple Income Replacement Product. This is fundamentally lacking at the moment.

## **Chapter 7 – Endorsement**

#### **Q8. Do you agree with this approach?**

We agree that some form of badge is needed to identify and signpost Simple Products. Examples of good badges are the Chip and Pin badge and the Contactless Cards badges (see the UK Cards Association's response for more information).

The simple products badge should convey "ease of understanding", "basic" and "access" to consumers rather than attributes relating to price or value.

Nothing is said in the report about who would pay for the development and marketing of the badge – should this be the MAS?

**RBSG Feedback to:  
Sergeant Review of Simple Financial Products:  
Interim Report – August 2012**

**Chapter 8 – Governance**

**Q9. Do you agree that there should be a formal independent accreditation process?**

We agree that there should be some form of independent control over the use of the simple products badge.

**Q10. Do you agree with the proposed approach to accreditation?**

We think accreditation should ideally be performed by the regulator, i.e. the FSA/FCA. The proposal to create a new body simply adds unnecessary expense, which further undermines the commercial viability of this initiative. How much expense is not known at this stage, making it very hard for firms to calculate if the overall proposal is a commercially viable one – commercial viability is fundamental here for this initiative to work and to be sustainable. What's more the new body will have no established reputation with consumers – this is a significant issue as credibility and trust in the accreditation process and the body performing it is key. We also think that the establishment of a new body is inconsistent with the Government's policy of streamlining public bodies.

If the regulator will not perform the accreditation we echo the comments made in the BBA response to this consultation, that the feasibility of an independent commercial alternative should be explored, such as bodies which are already set up and have a name for product accreditation such as Defaqto or the Fair Banking Foundation. Perhaps the independent commercial body would perform the accreditation but not define the standards for accreditation, to avoid any perceptions of industry influence over these. Exploring this alternative could be done in parallel to the work on the feasibility of the MAS-supported Board.

Consideration would also need to be given to how long accreditation lasts for (i.e. if there is a renewal period) and any monitoring.

If the regulator will not be the accreditation body then it is fundamental that the regulator confirms what the regulatory regime and approach will be for the simple products, how they are sold and how they fit in with other products in the provider's range. How will they be treated? Mis-selling risks would be a particular concern given that the products may not be the best ones for the customer – for example the simple easy access savings account may have a lower rate than other instant access accounts available from that provider. Could a customer later argue that they have been mis-sold the simple product? If this risk exists it makes offering simple products unattractive for providers or potentially even unfeasible, as this could take them outside of their risk appetite. This conflicts with the idea of the simple products being "safe" from a regulatory perspective, which would be an incentive for firms to offer them. Regulatory clarity in this area is needed before the simple financial products proposals can be finalised. We are pleased to say that the Interim Report asks 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 in relation to Simple Products. RBSG would be happy to be involved in any discussions about this.

We do not think that the accreditation body should be able to propose new simple products without full stakeholder involvement a whole new consultation process, such as this one, being gone through.

**RBSG Feedback to:  
Sergeant Review of Simple Financial Products:  
Interim Report – August 2012**



**Research Recommendations**

**Do you agree that ongoing and systematic consumer research is required in order to support the Simple Products initiative?**

We are pleased to see that consumer research will take place before the final report is produced. This research is fundamentally important not least to comply with Treating Customers Fairly (TCF) and what the FSA requires from firms in terms of good product governance. It will test the demand for simple products and, if there is demand, their design. It will be particularly important to ask consumers about affordability for the proposed simple products so the play between need and affordability can be properly understood. The products will not work if they are not affordable. Nor will they work if they don't deliver what customers need. Consumers therefore need to be asked what they would be prepared to pay and could afford to pay for savings and protection products. Understanding and needs should also be explored as well as testing the proposed branding and trust in the accreditation body. The research needs to cover a suitably representative sample of the target market.

Consumer research needs to be done both before launch and periodically after launch to ensure that the products remain appropriate for their intended target market.

**The Royal Bank of Scotland Group, 12 October 2012**

## **SAMI Consulting – response to the Sergeant Review of Simple Products Interim Report**

### **Key headline points**

In summary we would like to make four headline points:

- This review is a significant strategic development and, for the protection insurance sector, has parallels with the OFT reports of the 1990s. As such it is to be welcomed and we would be very happy to work on its implementation for example sharing in more depth with the Simple Product Accreditation Body the work we did for four sponsoring insurance companies on a quality standard for IP insurance (subject to their agreement)
- For term life insurance the standardised simple product concept would work well but only if consumers can also buy standardised add ons (for example for terminal illness insurance) without having to leave the Money Guidance portal
- For income protection we favour a CAT standard approach (albeit without standardised pricing). We have seen the response of the Income Protection Task Force and we agree with them. A standard product would be poor vfm and could lead to miss-selling as happened with PPI insurance. The CAT standard should build on the work already carried out on the IP quality standard
- In essence a twin track approach to term-life and IP insurance

We now move to some more detailed points.

### **Fixed simple products or space for competition over and above simple product features?**

It is worth remembering that the OFT report on critical illness insurance strengthened the ABI statement of best practice so as to reduce the complexity of differentiation between CI offerings for different companies. In essence it provided a baseline product which all companies had to comply with yet allowed them to give additional add ons and compete on these as well as price and service etc. The end result was that you didn't need to be a consultant oncologist to decide which cancer cover to purchase and the market expanded rapidly. This leads us to the first question to be asked. Should the simple products initiative rigidly set the product offering or should it allow companies to offer consumers add ons provided they meet some basic criteria – eg based on consumer benefit to cost + simplicity of the add on? The Report suggests no add ons will be allowed. It mentions a similar initiative in South Africa (Zimele products) but does not go into these in much detail. Although it is a different market this is a pity. In October 2011 The Centre for Financial Regulation and Inclusion (CFRI) published a very detailed report on the introduction of simple products there – reflecting on lessons learnt. Initially the industry adopted the same approach as suggested in the Review but this was subject to challenge by the Competition Commission. The end result was that banning add ons was declared illegal and companies were allowed to compete on these too – provided they fitted the simple product concept. This also chimes with what the OFT decided for CI. The accreditation body for simple products will need to engage with the Competition Commission proactively to decide which approach to adopt. And later on we show

some of the policy (as opposed to legal) reasons why add ons should be encouraged.

## **Marketing**

The Report contains an excellent analysis of the potential markets for simple products. For life the target market is segmented using three criteria: income (£15k - £50k/year); having dependents and not currently holding a policy. For income replacement dependants is replaced by working status. In addition there is impressive material on behavioural economics (building trust and engagement) and raising awareness and financial capability.

As the report focuses on non-advised sales it is not surprising that independent financial advisers get only a brief mention. However it is worth noting that some IFA companies, for example Lifesearch provide advice on-line and are establishing links with comparison web-sites. This route to market deserves more attention in the report.

For raising awareness, the four core areas will be the Money Advice Service, product providers, affinity group intermediaries (like Age UK), and industry led campaigns. The question is will this be enough? And what will the interrelationship be between the four areas? On the first question, we have lots of previous experience of similar simple product initiatives – eg stakeholder pensions and CAT standards. This suggests that barring a spectacular increase in the visibility of Money Advice more is needed. Here Government should engage too. After all there is a societal gain from people taking responsibility for their protection needs and not relying on the increasingly pressurised benefit system. The IP Task Force's idea of DWP working with employers to produce an annual statement of State and company benefits for employees could be the "nudge" individuals or companies need to increase their protection. On the second question, we can learn from the CFRI Report. What happened there was that companies didn't sign up to the simple product brand in a positive way. Sales increased but this was related mainly to the efforts of their own branding. One might say so what? Unfortunately this position is not sustainable in the longer term. Company initiatives wax and wane. Only an overarching brand with full industry support can accommodate changing priorities across companies and enable innovation in the simple product offering over time. Zimele is beginning to stall...

## **Product Practicalities**

### **Term life insurance**

The Report sets out eight principles for simple products to be assessed against and then goes on to do so for life and income replacement products. As mentioned before though, the criteria are related entirely to simplicity. There is no consideration of consumer detriment in having or not having particular terms and conditions. Indeed, surprisingly, we have been unable to spot the phrase "consumer detriment" anywhere in the report. This is a serious problem. Unless it is addressed then we cannot have confidence that a mass market for these products will not throw up another scandal. After all PPI was a pretty simple product. Beyond that the

opportunity is missed to look at the relative costs and benefits of particular features. These could have been addressed within the overall concept of simplicity and “doing what it says on the tin”.

Turning to life insurance the report recommends that:

- There is no payment in the event of terminal illness
- Consumers cannot increase their cover without further underwriting
- There is no waiver of premium benefit in the event of illness
- The only exclusion would be suicide within the first 12 months of the policy
- There is no standardised underwriting process
- Premiums are fixed for the life of the policy
- There might be an annual statement of cover etc – as happens for pensions

So let us imagine that this product really took off and dominated the market for low to middle income earners - we would have a new market in the UK for people with terminal illness holding a life policy. Although there is no payout on terminal illness the policy does have a real value at that point. It is easy to envisage a new set of ambulance chasers emerging who would target such vulnerable people and buy their policies off them. This market exists big time in the USA. Here we have a double whammy. Not only have we got consumer detriment for a number of vulnerable people but we have replicated a bust system from abroad.

As for WoP – lower income people tend to lapse their policies more than the rich when they face hard times – often brought on by ill health. This product guarantees that large numbers of working people will face severe consequences at their time of need through no fault of their own.

Finally there is no mention of the choice of having separate or joint life policies for married people or those in civil partnerships. In practice the cost difference is small (about £1/month on the premium for separate policies). The implications of this choice at claims stage though can be huge. For joint life policies a non-disclosure by one party influences the policy held by the other partner and if one partner dies the survivor has to be re-underwritten. One option would be to allow choice but keeping to the concept of standardisation is our preferred option here given the low cost difference involved ie all policies should be severable (not joint).

Turning from consumer detriment to cost – it would have been good to have seen an approximate analysis of the average cost of these two add ons for a typical policy holder to see how big an issue of affordability it would generate. In setting the product envelope/CAT standard for IP this becomes even more important.

## **Income replacement**

Moving to income replacement, there was not sufficient consensus to come up with a firm recommendation but the Report is very explicit on the value of progress on this as soon as possible and we agree with this. The debate so far has mainly centred on the following issues:

- Should there be simplification/standardisation of occupational classes?

- What choice should there be of deferred periods?
- How much cover can you buy – eg up to £1k/month or 50% of salary – this point relates to financial underwriting at point of claim – and being paid less than you expect
- What choice should you have on how long you will be paid for – cover beyond five years is ruled out

As with life, because the group restricted itself solely to the remit of simplicity – although “affordability” is mentioned in an unquantified way – they had no way of narrowing down to what is important and what is not.

So what next? The thinking on simple products needs a broader assessment process that prioritises aspects of cover, addresses potential consumer detriment, analyses costs and benefits to consumers of what the eventual offering may look like, and moves away from a rigid product with no add ons available. All of this could be done within the principles of simplicity. Our view is that the result of this analysis will show that the optimum solution is a CAT standard to set the envelope in which products must operate. And we would be happy to share experience of our work on a quality standard with the Accreditation Body (subject to views of the sponsors of that work). We fear that a completely standard product will provide poor vfm and be open to PPI style miss-selling complaints.

### **Accreditation and governance**

The review sets out an independent governance and accreditation structure. In essence there would be an independent accreditation body that would issue a “badge” for products that passed its tests and this body would be supported by Money Advice. Various other options were explored and rightly rejected.

That said, there is a more radical option which would involve linking this review to a review of Money Advice itself. It maybe that there are alternative and more effective ways to market than the one that is currently on the table.

### **The future – what if simple products dominate the market?**

When you're in the trenches you are not interested in the next war...Earlier on we raised the unintended consequences of excluding terminal illness from life policies. Once the stakes are in the ground for simple products it is essential that a medium to long term strategic exercise is undertaken to look at the potential impact of a successful scheme on the industry and society etc and to look at the potential impacts on the scheme of external drivers and uncertainties. Whatever we come up with should be fit for the future.

Richard Walsh  
 Director SAMI Consulting  
[www.samiconsulting.co.uk](http://www.samiconsulting.co.uk)

11 October 2012



## SavingsChampion.co.uk responses to the Sergeant Review Consultation Questions

### Chapter 5 Simple Financial Products Principles

Q1. Do you agree that there should be a set of high-level principles?

Yes. However, it is important to get an honest reflection of the providers' reactions to these principles to ensure that they will support the Simple Financial Products. It is no good having a great set of principles but no products.

Principles and any agreed badge/endorsement can create the opportunity for misuse, misunderstanding and misinterpretation. How to police these principles is just as important as developing them in the first place.

Q2. Do you have any comments on the proposed principles?

Principle 2 & 5. We believe these principles dovetail. We agree that a standardised version of the Banking Code of Practice Sourcebook (BCOBS) summary box is a great idea. It should be exactly the same from each provider, so that it is simple for customers to compare products.

In our experience the ID process is a real impediment to opening and moving savings accounts. At present the questions asked on application forms vary from provider to provider in both content and jargon. Savers may abandon the application process if they are unsure of how to answer.

It would therefore be beneficial for all providers to have standardised application forms and a standard surrender or switching form/approach, most notably the identification process and a plain English review of all standardised documentation would add value.

Principle 3. A standardised name that clearly identifies the product will help customers identify which products can be easily compared. But how can we ensure that other products that are not part of the Simple Financial Products range are not launched with similar sounding names? This will need to be closely monitored as it could become a new way to lure customers.

Principle 6. We agree that a clear and simple pricing structure is important and ideally each provider would only offer one rate, but accept that providers may need to use different pricing dependent on the distribution channel.

We understand the cost differential between different channels and that Branch is usually the most expensive. Allowing providers to offer different rates for different channels may encourage greater competition but will add to consumer confusion and make it harder to compare like with like. If

differentiation were to be allowed, our preference would be that the non-branch option may only offer one rate.

Point 6.24. In terms of keeping customers informed of any changes to the rates, the principle is quite simple. If you are open and honest, people will begin to rebuild their trust. Our customers registered with Rate Tracker are grateful simply to be informed when their rates change. This is a very basic requirement and one that we believe all providers should be providing.

Point 6.26. We wholeheartedly agree that it should not be possible for providers to launch new issues of the simple savings products as this is a very clear way of confusing customers. If there is only one of each type of account, then customers will be able to more easily identify the rate they are earning and not be bamboozled by which 'issue' they are in.

Point 6.27. Payment Services Regulations (PSRs) and BCOBS are a good place to start with regard to notification of a change of interest rate. But we believe that allowing providers to notify up to two months in advance is too long. People can easily forget if they are not re-reminded. We believe that one month is more advantageous and perfectly adequate if the switching process is simple.

In addition the expression 'materially reduced' is jargon and therefore meaningless. As mentioned above (Point 6.24), a basic need of savers is to be told whenever there is a rate change. We recognise that there is a cost consideration yet we stand by the fact that customers have the right to be told whenever a rate changes. Directing savers to a website (Money Advice Service or others) to check any changes and competing offers would enhance the service further.

Principle 7. Any ancillary fees should only be charged if the providers charge these anyway.

Principle 8. In addition to our comments above (Point 6.27), we also agree that the form and frequency of these notification requirements will need further discussion. It would be good to offer customers the choice of medium that they are most likely to read, such as email, text or letter.

With regards to a review of the AER, we agree with this for the savings industry as a whole as it is still difficult to compare different products. AERs for simple savings products should all be calculated in exactly the same way at the very least.

An actual example of how much interest savers could earn in pounds and pence is also useful. Please see the calculator on our [best buy tables](#) as an example. Click on the plus sign next to "What interest could I earn?".

Q3. Do you agree that firms should be limited to one issue of each Simple Product type, per brand, per channel?

Yes and no.

Yes to one issue of each product type and yes per channel.

However we take issue with the 'brand' requirement. Making it 'per FSCS licence' is easier and fairer for consumers.

Our customers are often confused about which brand falls under which licence. Therefore there is a danger that savers could end up with money that is unprotected. Trying to explain that some providers are linked adds another complicated aspect. Instead, perhaps they could have one of each product branded under the parent company, but available via each brand.

Alternatively a stark message could be issued on application – for example

*We are part of a shared Financial Services Compensation Scheme Licence. The following providers are all covered by our parent Company; The Bank of Scotland Plc:*

*AA, Aviva, Bank of Scotland, BM Savings, Halifax, Intelligent Finance, SAGA, and St James's Place*

*As a result, if you hold more than £85,000 in total with these providers, not all of your money may be protected by the FSCS.*

## Chapter 6 Simple Financial Products

Q4. Do you agree with this initial suite of simple products?

Yes. Although we are far less excited about the notice account as they are a bit passé these days. The notice account market plays second fiddle to Fixed Rate Bonds in popularity.

If we want to encourage people to build up their savings, a simple regular savings account would also make a lot more sense. At the moment, T&Cs on regular savings accounts vary hugely. They would really benefit from being simplified.

Q5. Do you have any comments on product design?

As a whole we like the simple basic design. It is what some providers already offer and we can see just how competitive they can be if they want to. We have also mentioned earlier our concerns regarding offering too many distribution channels and one product per brand, per channel.

We question whether having a maximum balance will add to simplicity. A maximum balance is one more condition.

We know that many of our users fall within the target income brackets but have significant levels of savings, particularly pensioners. Making such savers split their savings between such accounts

On the other hand if a maximum encourages more providers into the market, then due consideration must be given to savers and their ability to compare and open multiple accounts.

Given the target market of households with an income of between £15,000 and £50,000, was any research done into the target amount that each household may look to save? That would be a good place to start the debate about maximum savings allowances.

## **Chapter 7 – Endorsement**

Q8. Do you agree with this approach?

We love the idea behind Simple Savings Products. We agree that some sort of badge that clearly signposts which accounts are free of complicated terms and conditions is in the interest of savers.

However, we are concerned that too many principles will make the whole process onerous for providers. If simple savings are not commercially viable, providers will not offer them. We have seen this happen before with CAT standards and Stakeholder products.

If the number of providers is low, competition will be reduced and savings rates will likely be unattractive. Yet, there is a danger that signposting will still encourage savers into simple savings accounts.

Point 7.7 Whilst ease for the consumer is important when considering endorsement, we believe that reliability is equally essential. If accounts are launched with great rates that are slowly eroded, savers will lose faith. In such a scenario, the initiative will become another damp squib - joining the ranks of CAT standards and Stakeholder products.

## **Chapter 8 Governance**

Q9. Do you agree there should be a formal independent accreditation process?

Q10: Do you agree with the proposed approach to accreditation?

If there are principles that need to be met in order to achieve a badge to prove a simple status, then clearly there needs to be an independent accreditation process.

Is the cost going to be prohibitive? We also have no idea how powerful or toothless any accreditation body would be. If providers lose their endorsement what are the consequences? Obviously the regulator will also have a role to play in ensuring advertising is clear fair and not misleading, for example. It will be important that overall governance does not fall between two stalls.

Regarding point 6.22 we feel that one of the roles of the independent accreditation committee would be to maintain best buy tables of the simple savings products. We feel that providers should display this best buy table – or clearly point out where savers can find this information - in order to show customers if their badged simple product is competitive or not. Displaying results against peers should encourage providers to pay more competitive rates.

### Research Recommendations

Q11: Do you agree that on-going and systematic consumer research is required to support the Simple Products initiative?

Research is costly and may detract from the commercial viability of simple savings, particularly if costs are passed through via higher licence fees. Research might be nice but it may not be necessary. We suggest a simple market audit instead:

- Ask the providers once per year how many Simple Account clients they have;
- Ask for total and average balances;
- Ask how many have switched in and out and about new account openings;
- Ask for rate/rate change information;
- Ask these questions per brand/licence/channel as necessary
- Publish the results



**Smaller Businesses  
Practitioner Panel**

Financial Services Authority

c/o Panel Secretariat  
25 The North Colonnade  
Canary Wharf  
London  
E14 5HS  
Tel: 0207 066 3038

**RESPONSE TO SERGEANT REVIEW OF  
SIMPLE FINANCIAL PRODUCTS: INTERIM REPORT**

**4 OCTOBER 2012**

## *Introduction*

The Smaller Businesses Practitioner Panel is a Panel dedicated to helping to improve the UK regulatory structure, for the benefit of consumers, as well as industry and the general public.

The Panel welcomes the interim report of the Sergeant Review of Simple Financial Products. It has taken a keen interest in the development of Simple Products and has participated in discussions with the FSA on multiple occasions and responded to the FSA's Simplified Advice Consultation in November 2011.

The Panel has previously expressed concern that the changing regulatory environment and implementation of the RDR may result in an 'advice gap' in the UK, which is likely to further discourage the uptake of savings products. As such, the Panel are supportive of this initiative and believe it can play an important role in educating consumers to identify suitable products.

### *Overall comments:*

- We welcome the publication of this report, and we support the Simple Products initiative.
- It is key in future work to also test potential levels of take-up. This initiative will only be successful if consumers actually use it. As such, the work the Group is doing regarding 'trust and engagement' is vitally important.
- The Panel were pleased to see the inclusion of a Simple Products badge following the Group's endorsement scheme research. They were especially supportive of the recognition of the importance of a relationship between the Simple Products initiative and the FSA/FCA. It is key going forward that there is some form of regulatory recognition, both from the FCA and FOS, that Simple Products do not require the same advice process as other sales.
- The Panel were also pleased to note that the review does not include pricing caps, which we believe was a key cause of failure of previous, similar Schemes.
- We also welcome proposals for the Money Advice Service to play a role in signposting simple products.

The Panel's product specific comments in relation to this consultation are outlined below.

### *Specific comments:*

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

The Panel is strongly supportive of 'simple' products being products where advice is not needed. However, in terms of the proposal to include a Life Cover Product in this range the Panel believes that there may be two potential areas for consumer detriment the Steering Group should be aware of:

- For life assurance to be effective i.e. paid out promptly to the intended beneficiaries and not paid into the estate of the deceased (and thus potentially exacerbating any liability to Inheritance Tax), it needs to be placed in trust or effected on a “life of another” basis. There are many different types of trust e.g. MWPA, flexible, absolute, life interest and it will not be straightforward for people to deal with this in their own best interests without advice.
  - This is another concern that should be taken into account by the Group.
- Proposal forms for life assurance have grown ever more complex with many detailed questions about family history and medical information. There is still likely to be many cases where relevant information is unwittingly not disclosed because it is too complex or has simply been forgotten or not considered to be important or relevant by the proposer. This will result in death claims not being paid out by the insurer.
  - As such, we welcome the Group’s recognition that more could be done to prepare consumers prior to commencing the application process, and that potential non-disclosure in this area could be a real concern





## **Swiss Re response to the Interim Report of the Sergeant Review of Simple Financial Products**

### **Introduction**

Swiss Re welcomes the publication of the Interim Report of the Sergeant Review of Simple Financial Products. The report provides a sound basis from which a suite of simple savings and protection products could be developed.

We are concerned, however, that the Interim Report proposals have come up with a very limited suite of products. Unless further products are developed, and specifically Income Protection, we question whether the proposals will pass a rigorous test of the costs incurred and the benefits.

Swiss Re has participated directly in the consultation process leading up to the Interim Report and looks forward to continuing its involvement with a view to the delivery of a set of products which consumers can feel confident in accessing and purchasing.

### **The Protection Gaps**

In 2002, we identified the scale of the Life Assurance and Income Protection Gaps in the UK, figures which we update on an annual basis.

At the end of 2011, the Life Assurance Protection Gap stood at £2,400billion and the Income Protection Gap at £190billion annual benefit.

Since 2002, the Life Assurance Gap has increased by 20% and the Income Protection Gap by 46%. The Income Protection Gap is based on benefit amounts and does not take account of benefit duration. This masks the fact that many people who enjoy cover only have benefit payments in claim for a limited duration, typically no more than five years.

Through consumer research conducted for our series of Insurance Reports, we have identified that the Life Assurance Protection Gap appears to be greatest amongst single and married people with dependants, typically in the age group 25 to 40 and with income close to national average earnings. More broadly, half of the UK adult population has a protection gap which, on average, amounts to £100,000 per person, around four times national average earnings.

Market data published by Swiss Re in Group Watch 2012 show that there are just over 1.8m people who enjoy insured income protection cover arranged by their employer. A number of employers choose to self-insure or to insure part of the benefits provided under the contract of employment with the employee.

Swiss Re does not collect in-force data for individual income protection policies but we are aware of ABI data suggesting that fewer than 1.3m people have in-force policies. From our own research into new sales, we are aware that perhaps 10-15% of all policies are designed primarily to cover mortgage commitments rather than for income replacement.

By comparison, the target market for simple income protection in the Interim Report is stated to be 23.5m adults, suggesting coverage on an insured basis of, at best, 13% and 11-12% once mortgage-related cover is taken into account.

Existing products tend to be purchased by or arranged by employers for higher earners. Our Term & Health Watch 2012 Report shows that the average new annual income protection benefit insured in 2011 was £12,306. This figure includes products designed to protect monthly mortgage commitments, exclusion of which raises the average new annual benefit insured to approximately £13,500.

Our Group Watch 2012 Report covers in-force employer-sponsored business and shows that the average annual benefit insured amounts to £28,214.

We have compared our own research and the methodology used to calculate the Protection Gaps with the analysis used in the Interim Report to determine the scale of the potential market for simple protection products and agree with the conclusions based on the number of individuals and households. The average benefit figures reported above suggest that the proposed target market for simple products is largely unprotected.

Our responses to the specific questions raised in the Interim Report are as follows.

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

Yes. This is essential to set a baseline from which the suite of simple products can be developed.

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

The proposed principles use terminology such as “simply explained”, “easily understood”, and “fair and reasonable charges”, all of which are appropriate.

Swiss Re research for our series of Insurance Reports shows that consumers find financial products complex and the language used confusing. Consistently, we hear that consumers want financial services companies to communicate with them in a way they can comprehend. If simple products are designed to be sold without recourse to a financial adviser, simple explanations of products, what they do and who they are suited to will be vital.

Most industry commentators expect that the availability of financial advice will reduce, meaning that more consumers, whether through choice or necessity, will need to make their own decisions. Rather than making comparisons, consumers may choose to purchase simple products through a trusted brand in which case they may not choose to compare products, prices and charges. Nonetheless, we support clear pricing and likely return structures to enable those wishing to compare to do so.

We see an important role for the Money Advice Service in helping consumers to make suitable product choices and encouraging employers, advisers and affinity groups to engage with consumers to facilitate access to as many people as possible.

We also see a key role for employers as potential facilitators of simple products. Given the average insured income protection benefit in employer-sponsored IP schemes currently, we believe that employer-facilitated cover would not compromise existing arrangements and could

# a

open up a new access point for employees where the choices could be presented in a straight forward way.

Swiss Re research conducted for its 2011 Insurance Report shows that 59% of people who expressed a view were either very or fairly likely to consider purchasing a protection policy through their employer. We are already seeing data showing that consumers are buying protection cover through the workplace, either as a standalone policy or to top up cover provided by the employer. In our publication, Group Watch 2012, we reported that 10% of all group risk premiums were for “flex” or voluntary arrangements.

Where cover is facilitated through the workplace and paid for by the employee, we will need to consider how cover can be kept in force once somebody leaves that employer.

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

Yes, we agree.

## **Question 4: Do you agree with this initial suite of Simple Products?**

In our view, simple savings and protection products are a starting point but we are concerned that the proposals display insufficient ambition. If the proposals go no further than a simple deposit account, savings account and a term assurance policy, it is not obvious what value a “simple” label would really add and whether the initial and on-going costs justify the potential benefits to consumers and to product providers. As examples, the suite might of products might also include guaranteed acceptance plans to meet the cost of a funeral and health cash plans.

In particular, we are disappointed that a simple income protection policy remains a “work in progress”. New sales of “traditional” income protection policies are now half of those reported ten years ago despite very clear indications that the State is reducing or withdrawing provision and is likely to continue to do so. Consequently, we urge that work on developing an income protection proposition within the suite of products is accelerated.

The proposals are very much focused on long-term cover although the potential benefits of an income protection policy as described would only be paid for a limited term. The proposal for guaranteed premiums means that products which are written by general insurers could not fall within the scope of Simple Products. As such products cannot be written for a duration greater than five years, they are effectively excluded since the insurer could not guarantee that the price would not change on renewal.

This is unfortunate since general insurers could provide a further means for consumers to access the market.

There should be scope within the suite of simple products to allow prescribed terms and conditions to adapt to changing market conditions, such as fundamental changes in entitlement to State benefits.

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

We agree with the proposed simple life policy. We do not consider it necessary, for instance, to include terminal illness cover within the product design. Life cover should be designed to provide funds to support family and dependants and a terminal illness payment, which may in practice be used for other purposes by the policyholder, may frustrate that simple message.

We would, however, for the purposes of clarity for the consumer, recommend that the suicide exclusion is kept where an insurer wishes to do so.

The target market for simple products is mainly families of fairly modest means who are likely to need speedy payment of the policy proceeds on claim. Consequently, we would like to see more in the standards about the simple life policy being one that pays the sum assured to the chosen dependants. Applicants could be asked to list the chosen dependants in the application for cover.

Writing the policy using a simple trust would ensure that payment of the policy proceeds is not held up by probate. This would also mean that the proceeds would not be subject to inheritance tax although we accept that this would not be a major concern for most of the target market.

We understand that the technicalities of trust wordings will be beyond the comprehension of most of the target market and, therefore, it should be the responsibility of the life market to ensure that the wishes of the life assured are met. Making provision for the proceeds to pay the relevant dependants should be the default option. We are aware of discussions taking place between industry trade bodies and the Government about the use of nomination forms to speed up payments and this could be a useful alternative.

Group risk arrangements where, for example, the employer or an affinity organisation is the policyholder with a simple nomination form to direct policy proceeds are already very effective in achieving prompt payment.

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

In an ideal world, consumers would protect themselves against the risk of losing their income for the rest of their working lives. The reality, though, is that long-term insurers and intermediaries have failed to deliver advice, products and consumer messages which have resonated with consumers to the extent that they have purchased cover. We believe that, in practice and despite protestations to the contrary, many firms have little interest in selling the product. Simplifying the proposition could be a major catalyst for change. We recognise that opinions are divided on the need for a simple product and, for those who are in favour of its development, there are many differing views on the product features. We see two potential options to take this forward.

On the one hand, there could be a very simple proposition which largely operates independently of individual circumstances. Alternatively, we could introduce a product more closely linked to life styles and commitments. The former has the advantage of greater simplicity, making it relatively easier to communicate. The latter approach, while inherently more complex, could be explained relatively simply to the consumer. We are happy to work with the next phase of the work on either option.

### **Benefit payment terms**

# a

Ideally, we would prefer more comprehensive cover which would pay throughout working life and would be in favour of a switched definition going from own occupation to a harsher definition, ensuring that those most severely disabled with little chance of working again are protected for longer but we accept that the appeal of this as a consumer proposition may be more limited.

We recognise, however, that products which pay for a shorter period are now commonly offered as an alternative. For example, 26% of all lives covered under employer-sponsored arrangements are now covered for a benefit period between one and five years and many retail product providers offer a choice of benefit payment terms.

If the limited term model is adopted, the options could be cut down to perhaps just a two year or five year benefit period. Too much choice may put off the consumer, particularly if this is combined with a number of choices of deferred period. What criteria would they base their decision on? We see no obvious logic in the proposed benefit terms.

We would like confirmation on whether the number of claim pay out periods is unlimited throughout the term of the policy or up to a maximum of whatever limited term the claimant has selected.

## **Product branding and description**

Careful branding and product descriptors should be used if the proposed design is adopted, The term "Income Protection" should not be used; all of our research shows that consumers find this term confusing and, reasonably, assume that the product will cover them if they are made redundant or become unemployed. They may also see this as a benefit covering their working life rather than one which allows a period of time for them to assess the consequences for their income and lifestyle should they not be able to return to work once income benefits cease.

We recognise that a clear and succinct term which describes the product is difficult. For example, in our Group Watch reports on the UK group risk market, we use the term "Long-Term Disability Income" but this term would not fit the proposed product design.

We are not keen on the alternatives suggested in the Interim Review. That said, discussion with a number of colleagues showed no unanimity of opinion here, reinforcing the need for thorough consumer testing of any proposed branding.

"Short-term Income Protection" might be a better starting point but this term is currently used to describe a number of products offered by general insurance providers where the term of the product is limited to a maximum of five years. A descriptor which used Disability Insurance or Sickness & Accident Insurance might have some consumer appeal.

Although current limited payment term products differ in the detail, the intention is really to provide an income for a period which allows the customer a period of time to assess the consequences for their income and lifestyle should they not return to work before the claim payment period ends. The language used to describe the product should be transparent around this without being overly pejorative. For instance, it could signpost to contacting an adviser or product provider if cover is sought for the whole working life.

## **Deferred periods**

Consistent with our proposals to limit the number of benefit payment periods, we question the need for a selection of deferred periods if there is no financial underwriting at claim (and, therefore, no continuing income to take into account). Multiple deferred period choices may just confuse the consumer. We recommend a deferred period of 13 or 26 weeks as a standard. No deferred period or four weeks could be prohibitive to good risk management, administration costs and price.

We recognise that the target group is more likely to have a short period of continuing income from their employer and, consequently, need the benefit earlier but this also needs to be balanced with making the product affordable. We also need to consider how the needs of the self-employed might be met.

We are in favour of calling the deferred period a "waiting period."

## **Underwriting**

We are happy that this will be up to the provider.

"Occupation" must include employment details

If controls are taken away at claim stage, what controls on financial underwriting will there be at application? For example, will applicants be required to submit evidence of earnings?

We recommend that the policy is not offered to the unemployed and there would need to be a suitable definition for those unemployed at time of claim. There should be a check against multiple policies with different insurers and consideration given to a maximum benefit cap across all insurers.

## **Exclusions**

We recommend that a residency clause is the sole standard exclusion. This product is aimed at insuring the UK population (moving to the EU is acceptable as standard). The absence of a residency exclusion will have an impact on fraud.

## **Rejected claims**

The working group says that, by retaining full underwriting, "providing the applicant has been truthful then there should be no reason why claims are rejected". In practice, most claims are declined because the definition not met. Our most recent analysis of claims shows only 16% of declined claims is due to non-disclosure. 41% are for the definition not being met.

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

Yes, we do, although this will mean that the market will need to be brave enough to re-think the market need and proposition and want to sell it rather than creating a cut down version of the current income protection policy.

# a

We accept that there is a risk that insured benefits may replace benefits which would otherwise be provided by the State. This potential issue exists today and has similarities with the pensions market for those on marginal incomes electing to purchase or being auto-enrolled into qualifying pensions products.

We do not think that it is realistic to ask for the benefits from a simple income protection policy to be ignored when assessing entitlement to State benefits. Instead, we prefer a simple message along the lines of:

“This policy is not likely to be suitable for you if you earn less than xxxx.”

The quantum in this statement would need to be reviewed periodically and as changes in State benefits occur. This could then act as a simple filter for consumers considering purchasing the cover. Such a statement would need to be reviewed regularly.

## **Question 8: Do you agree with this approach?**

Yes. A Simple Products badge should be tested with consumers and with consumer groups. The “badge” must be sustainable given that long-term insurance products can last for 40 years or even more.

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

We support this in principle, provided the accreditation process is not overly bureaucratic. Potential providers will be concerned if this process is slow and excessively costly.

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

Yes.

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

We support the use of on-going research to evaluate the potential impact of the initiative in reducing the savings and protection gaps, provided the findings are acted upon. Although consumer research from a number of organisations has shown that consumers find our products, services, processes and language confusing, these findings have too often been ignored.

For example, we have too often engaged in internal industry debate about which part of the market should have proprietary rights to the name “income protection”, ignoring the fact that the name itself is an inadequate description of the product behind it.

We welcome the work carried out by The NEST Corporation and others to simplify pensions language and would strongly urge the development of more appropriate language for protection products with a clear objective of clarifying what we broadly describe as income protection.

For further information, please contact initially:

Ron Wheatcroft

Technical Manager



## RESPONSE TO SERGEANT REVIEW OF SIMPLE FINANCIAL PRODUCTS interim report

Date: 10<sup>th</sup> October 2012  
Author: Louise Cuming  
Contact details:  
Company: Total Systems plc  
394 City Road  
London EC1V 2QA

### Recommendations and Consultation Questions:

Chapter 5 Simple Financial Product Principles
<p><b>1. Do you agree that there should be a set of high-level principles?</b></p> <p>Yes.</p>
<p><b>2. Do you have any comments on the proposed principles?</b></p> <p>Broadly speaking these seem fair and comprehensive.</p>
<p><b>3. Do you agree that firms should be limited to one issue of each Simple Product Type, per brand, per channel?</b></p> <p>I think firms should be limited to one issue of each Simple Product Type per brand but NOT per channel.</p> <p>I think allowing different issues 'per channel' adds an additional layer of complexity to the proposition and fail to see how this will help the consumer. In fact it could actually start to introduce lack of fairness and add to consumer distrust. For example if brands start to price the product differently for different channels a consumer could find they have bought a product via an on-line distributor only to discover they could have got a slightly better deal for exactly the same product by going directly to the product 'manufacturer' and thus feel 'cheated'.</p> <p>I can understand the push by manufacturers and distributors for the 'per channel' clause. It allows for the 'cost of acquisition' to be factored in per channel. However the interests of the consumer should be at the centre of this initiative, together with the objective of building trust in the industry – so to that end I feel a single product strategy across all distribution channels should be the agreed principle.</p>

## Chapter 6 Simple Financial Products

### 4. Do you agree with this initial suite of Simple products?

No, I fear the initial product portfolio lacks ambition and fails to address the issue of financial difficulty caused by prolonged ill health. Without including the 'income replacement' product from outset the initiative lacks real impact.

### 5. Do you have any comments on the product design?

Savings products:

- Little to say on the high level design as it replicates a number of products already available.
- Disappointed with the lack of creativity. Hard to see what is significantly different/exciting enough to meet the desired objective of a much higher percentage of the target audience become engaged with saving for the future. I am sure there are some much better brains out there than me out there and those involved in the project had plenty of time to discuss and imagine – so why such a mundane output? Could we have standardised 'bonus' payments or gifts for milestone saving;; incentives for no withdrawals in a year etc...Something a bit different to make saving more engaging. Think of the power of the 'meercat' toy in driving insurance sales
- As already mentioned above, I feel all products should be priced the same irrespective of delivery channel. However, as suggested above, would be great to have standardised incentive milestones, but these could differ by brand and really start to differentiate the offerings.

Simple protection product:

- I think all the products should also include a standardised and agreed additional feature of paying out for diagnosed terminal-illness. Standardisation should be that if a policy holder is diagnosed with a terminal illness, the policy should pay out. There should be no 'grey' around the doctor having to say this will happen in the next 12 months (which is virtually impossible for any medical practitioner to do, thereby negating most terminal illness contracts) I would surmise the % of policy holders in this category will be tiny – but it would offer great peace of mind and add real value to a simplified proposition.
- As mentioned in the report, 'life insurance in its most basic form is already a simple proposition' and so the product design does not vary greatly from that already available in the market place. However, the complication around life cover comes 'after the fact' – in other words when the policy holder dies. The percentage of cases written in Trust is woefully low, well under 10% across all life contracts, and this is an area that could and should have been addressed in the product design. Probably not easy – but a product of this size should not be looking for 'easy' solutions, but the right solutions. The product design should build in a simple 'trust' process.
- Although I completely agree that the 'risk assessment' is essential to a fair pricing of life policies, I fear it is the application process rather than the product itself that is often a barrier to buying. On-line applications can now take as long as 40 minutes for joint applicants if there are health issues and this is undoubtedly a block to purchase, especially if the product is to be

offered on a non-advice basis. The sale of 'over 50s life cover' has actually bucked the trend and grown over recent years. This is in no small way down to the ease of application. Could some thought be given to the application questions themselves to drive the most streamlined 'best of breed' approach for these simple products?

**6. Do you have any comments on the proposed design for a simple income replacement product?**

All consideration of this product seemed to be around using the existing long term 'permanent health insurance' type income protection products as the template for the simple product – with no consideration at all given to looking at the short term income protection approach or cash health plans.

This initiative gives the opportunity for radical thinking – and there are a lot of positive product design lessons from some of the Short Term Income Replacement products on the market. This product will be renamed, will have specified terms and conditions will have a 'simple product' type endorsement and so there should be no hang ups about the ppi scandals. Again, so disappointed in the lack of new thinking. The product designs seem to just be using templates already available and 'tinkering' at best.

- Have you considered annually/bi-annually renewable products allowing the contracts to be written as general insurance?
- Can we get 'joined up' thinking with the benefits office and agree that for a maximum payout of an agreed monthly amount insurance can be paid without means testing
- Is some of the constrained thinking limited by constrained technology – ie product design has to fit in with what can be delivered with the minimum of effort using existing platforms? If so, then part of this initiative should be around how to develop much more flexible products to be able to flex going forward and continue to meet customer requirements within the 'simple' branding approach
- Etc...

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

Yes, most emphatically. This initiative has some of the most creative brains in the industry with some pretty hefty influence so I have no doubt it can be done

Actually, this is a pretty simple concept. If you are too ill to work, then you receive an income. Much of the 'complexity' is around underwriting – type of employment; health history etc... and that is no different from the simple life product. It has been agreed not to 'simplify' the need for extensive understanding of the applicant's health before accepting the life application – so same approach for the 'income replacement' product.

## Chapter 7 Endorsement

- 8. A Simple Product badge should be created to signpost Simple Products for the consumer in a complex market place. Do you agree with this approach?**

Yes, I absolutely agree there should be a 'kitemark' endorsement, However I think there are already a lot of simple products available – as pointed out life cover and easy access savings accounts are readily available and pretty simple. The endorsement should be more to highlight 'transparency' and 'clear and straightforward' approach rather than simple v complex.

## Chapter 8 Governance

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

- 9. Do you agree there should be a formal accreditation process?**

Yes,

- 10. Do you agree with the proposed approach to accreditation?**

Yes,

## Research Recommendations

- 11. Do you agree that ongoing and systematic consumer research is required to support the Simple Products initiative?**

No, I do not think there needs to be more consumer research. There is already too much talking, evaluating, research, reporting, consulting – in short procrastinating in our industry! What we actually need is a lot more 'doing'.

The members of the Steering Group and Chairs of the Working Groups between them will have had access to mountains of detailed and extensive consumer research over their careers covering the subject of why customers are not buying – I don't think further 'ongoing and systematic' research will give a lot more insight to the project.

Where I think energy should be channelled is:



# Total Systems plc

---

- Product portfolio and design. It needs to be more innovative, engaging and needs to address the issue of sickness and unemployment as well as death.
- Marketing and Distribution. Too much reliance is being given to the Money Advice Service – and this has not delivered a great uptake of financial products hitherto, so in its current form is certainly not the panacea to get the word of this initiative out there. A successful campaign, in the end, will not be down to the products, it will be down to how well they are marketed and distributed.

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

*Address*  
The UK Cards Association  
2 Thomas More Square  
London  
E1W 1YN  
*Telephone*  
+44 (0)20 3217 8200  
*Website*  
[www.theukcardsassociation.org.uk](http://www.theukcardsassociation.org.uk)

*Contact*  
**Jacqui Tribe**

*Email*  
[REDACTED]

*Direct Line*  
[REDACTED]

Dear Sirs

The UK Cards Association is the leading trade association for the cards industry in the UK. The Association is the industry body of financial institutions who act as card issuers and/or acquirers in the UK card payments market. It is responsible for formulating and implementing policy on non-competitive aspects of card payments. Members of The UK Cards Association account for the vast majority of debit and credit cards issued in the UK, issuing in excess of 55 million credit cards and 86 million debit cards, and cover the whole of the payment card acquiring market.

The Association promotes co-operation between industry participants in order to progress non-competitive matters of mutual interest and seeks to inform and engage with stakeholders to advance the industry for the ultimate benefit of its members' consumer and retail customers. As an Association we are committed to delivering a card industry that is focused on improved outcomes for the customer.

We welcome the opportunity to provide input in response to the interim report of the *Sergeant Review of Simple Financial Products*.

## Consultation Recommendations and Questions

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

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

We believe that a set of high-level principles is helpful in order to provide clarity of the objectives of the Simple Products initiative and to help set expectations of what the Simple Products initiative is aiming to achieve.

### **Question 2 – Do you have any comments on the proposed principles?**

We believe that the proposed set of principles capture the essence and spirit that underpin a Simple Product.

With regard to 'straightforward language' it is worth mentioning that legislation can often result in less than straightforward language, and that some terms used by providers may have specific meaning across a range of their products.

In the past where similar initiatives have been considered there has been some confusion over the distinction between what is 'simple', what is 'fair' and what is 'safe'. It is useful to have a set of principles that go some way to providing clarity of what is – and is not – meant by 'simple'.

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

We think that this is a reasonable approach, though may prove restrictive in some circumstances. Were a provider to offer two or more variants of the same Simple Product, this in itself would imply differences between the two and therefore introduce a degree of complexity requiring an explanation.

Though outside of our expertise, in terms of restriction one may wish to consider that online savings accounts often offer better interest rates than similar branch-based accounts. Therefore, one may wish to reconsider the proposal to limit products by channel if, to do so, this might inadvertently reduce the overall attractiveness or benefit of the product to the consumer.

*The initial suite of Simple Products should be:*

- *Easy Access Savings Account*
- *30 days' Notice Savings Account*
- *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.*

#### **Question 4 – Do you agree with this initial suite of Simple Products?**

We believe that this is an appropriate starting point given the stated objectives of the initiative.

#### **Question 5 – Do you have any comments on the product design?**

Given that our knowledge and expertise relates to card-based payment and lending products, it would not be appropriate for us to comment on the proposed product design.

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

See answer to question 5.

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

See answer to question 5.



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

### **Question 8 – Do you agree with this approach?**

Clearly the aim of the proposals is to ensure easy product recognition. We are able to comment on the proposed approach based upon our experience (principally within the acceptance market) in creating and promoting the chip & PIN badge used during the migration from magnetic stripe & signature card transactions to chip & PIN card transactions (2004-2006). This was similar in that the badge created had a generic sign-posting purpose for consumers and was not the property of any individual provider (bank or retailer). We also have experience in the generic badge used to identify cards and terminals that have a contactless payment function<sup>1</sup>, though arguably this has not, as yet, gained the same traction with consumers as the chip & PIN badge. As such, we believe that there would need to be some form of badge, logo, design or generic descriptor that would signpost a Simple Product to the consumer, though communication and promotion will be key.

Such a badge would need to be distinctive and its meaning promoted to consumers such that it is known to be of generic relevance and not simply another sub-brand of the provider offering the Simple Product in which the consumer is interested. Creation of such a badge is not an insignificant or inexpensive task, nor one where success can be guaranteed. Adequate controls would need to be in place related to ownership and usage of the badge.

For some providers, the introduction of an additional badge may prove an obstacle, though this ought not to be a problem for providers genuinely committed to providing Simple Products.



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

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

Yes, there should be a formal and independent accreditation process.

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

It seems to us that an accreditation body is unavoidable if Simple Products are to have meaning and integrity. The proposed list of functions for the body seems reasonable and practical.

The idea that a high level Simple Products Independent Accreditation Board should be established is one possible option. However, much will depend on the capacity and resource required – and the associated cost – which will be driven by the number and range of Simple Products that might be developed by providers.

Alternatively, a temporary option might be considered, with a body perhaps initially residing within a pre-existing organisation such as the proposed Financial Conduct Authority or the Lending Standards Board, to operate until it is clear how busy such a body might be.

*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;*
- *Calculate the “simplicity dividend”.*

**Question 11 – Do you agree that ongoing and systematic consumer research is required to support the Simple Products initiative?**

There needs to be some means of determining the success of the Simple Products initiative, however success might be defined. Therefore, there is going to be a need to undertake ongoing research and regular reporting. This may go beyond simply undertaking consumer research, though consumer research is likely to be a major constituent part.

Should you have any queries regarding this submission, I and my colleagues would be happy to meet with the team to discuss our comments in further detail.

Yours faithfully

Jacqui Tribe  
Manager, Legal & Regulatory

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

Via email: [simpleproducts@abi.org.uk](mailto:simpleproducts@abi.org.uk)

12 October 2012

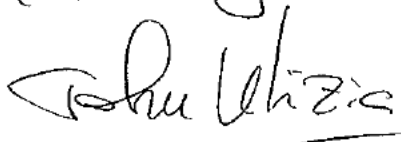
Dear Sir/Madam

Please find attached Unum's response to the to the consultation document on the Sergeant Review of Simple Financial Products Interim Report.

Unum's is one of the UK's leading financial protection insurers. We specialize in providing Income Protection through the workplace. At the end of 2011, we protected more than 1.9 million people in the UK and paid claims of £288 million.

In June 2011, we launched an Income Protection awareness campaign to highlight the key role it can play in helping people protect people's lifestyle.

If you require any further information, please do not hesitate to contact me.

Kind regards  


John Letizia  
Public Affairs and CSR



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

The proposed design is a good start to develop a simplified Income Protection (IP) product.

Much of the current complexity in IP product design stems from the demand for flexible terms to accommodate high levels of insured benefit. We believe that much of this complexity can be removed for more modest benefits without compromising the appeal of the product.

In essence, we believe a simplified IP product should provide clarity around price, when and how claims will be paid and for how long. In particular, the product should be affordable for the majority of the target market.

The following aspects of IP tend to provide most product complexity (where appropriate the section of the Sergeant Review of Simple Financial Products: Interim Report is given for reference):

- Financial underwriting (6.69)
- Medical and occupational underwriting (6.70)
- Cover (6.71)
- Choice of pay-out period (6.72)
- Definitions of incapacity
- Eligibility

Addressing each in turn:

- ***Financial underwriting (6.69)***

The proposal to allow a maximum amount below which evidence of earnings is not required is certainly straightforward and overcomes a potential barrier as some individuals may be put-off by having to disclose earnings. The current proposal is to allow up to £1,000 per month without any check against earnings at application or at claim. This could result in over-insurance for lower earners and potentially lead to reduced recovery rates that would need to be reflected in the premiums charged.

As affordability is likely to be a key factor in the success of a simplified IP product, it may be easier to ask all applicants to confirm that the selected amount of benefit is no greater than 50 per cent of earnings. However, we recommend that 50 per cent is not suggested as the “correct” level of benefit and that individuals are encouraged to purchase lower level of benefits, especially given the tax-free nature of the benefits. We believe individuals would react positively to a quotation basis that is based on monthly premium expenditure rather than a selected annual or monthly amount of benefit. Alternatively, a basic flat amount of benefit, irrespective of earnings, for all individual could be considered as a basic simple IP design.

We support the view that financial underwriting is not applied at point of claim. This approach provides certainty that a valid claim will be paid for the full amount insured and for which premiums have been paid.

- ***Medical and occupational underwriting (6.66 and 6.70)***

The design states that this could differ between provider to reflect their risk appetite and we would support this.

We would favour using the accept/reject medical underwriting approach we developed for Unum Select workplace IP product – further details can be provided as required. It has the benefit of being a simple yes/no response to a limited number of questions concerning the applicant's medical history and capable of on-line application.

It is well established that certain occupations present a greater morbidity risk when, for example, compared with a clerical office-based occupation. Most providers will charge additional premiums to cover the risk and the result could be a cost of two or three times the premium for a clerical occupation. It is possible that premiums of this magnitude could tarnish the reputation of a simplified IP product.

An additional approach to manage the extra risk of some occupations is to restrict the choice of certain benefit features so that the risk is contained. These features include: a longer deferred period, a shorter benefit payment period and a stronger test of incapacity (see below).

Inevitably, restricting certain product features for certain occupations makes the quotation process more complex and ways should be investigated to make the process as simple as possible. An on-line interactive needs analysis, underwriting and quotation tool that allows users to calculate income and expenditure, apply and construct a policy with benefit features that match their needs, budget and risk profile would help in this respect.

The impact of occupational underwriting is somewhat less obvious if a workplace simplified IP solution is developed as the premium rates are developed for each employer and reflect the occupation mix of that employer rather than on an individual basis.

- ***Cover (6.71)***

We believe the use of units of benefits is a sensible approach and one we adopted for Unum Select workplace IP product. Consideration would need to be given to set a minimum amount of benefit in order for the policy to be economical and a maximum amount would be required to ensure that the simplified financial, medical and potentially occupational underwriting requirements remain adequate for the risk. We agree that units could be increased with a light-touch underwriting approach and the units could be decreased too.

We believe that IP benefit should be the mainstay of continued income during incapacity and that ESA benefit, if received, should be disregarded in setting IP benefits. We agree that the level of chosen benefit should be payable irrespective of the level of pay-out from contribution based ESA and/or other employer benefits but recommend that the maximum benefits available under simplified IP are moderate and not encourage over-insurance.

We also believe consideration should be given to withdrawing the option for benefit escalation during claim, especially for the relatively short benefit periods being considered as part of the core design.

- **Choice of pay-out period (6.72)**

Although the suggested simplified IP design is based on a limited benefit term of five years, we believe customers should be offered the option of a policy with benefits to state pension age. To make the product more affordable lower levels of benefit could be selected, e.g. 25 per cent of earnings (tax-free) and consideration should be given to premiums being based on reviewable rates. The most incapacitated individuals will be off work longest and will require long-term income replacement. We believe the "simple" concept can be equally applied to long-term IP.

We would also propose a separate short - term IP product that would pay benefit for a maximum period of 12 months together with shorter deferred periods of 4 weeks or less.

We support the approach of allowing recurrent claims on limited benefit duration policies and believe that the suggested basis for recurrent claims could be relaxed a little. For example, an individual must return to work and fulfill Actively at Work requirements for a period of at least four weeks prior to a subsequent absence which fulfils the Definition of Incapacity and serve the deferred period before a new claim would be paid.

- **Definitions of incapacity**

This is a key feature of an IP product and describes the test of incapacity an individual must satisfy to become a valid claim. The market has generally settled on an "own occupation" definition although the finer details of the wording may vary between providers. An abridged wording is set out below:

*Benefit is usually paid where the individual is "unable by reason of illness or injury to perform the material and substantial duties of their occupation". Material and substantial duties are those normally done in your occupation and which cannot reasonably be left out or changed by you or your employer. Please note that occupation is not restricted to one place of work.*

This is a generous definition and certain applicants may require a higher test of incapacity for occupations that present a higher morbidity risk. This would help control premiums for this type of occupation.

An alternative, simple and more affordable definition would be based on the individual being unable to perform a "suitable alternative occupation" that provides at least two thirds of their previous earnings. This type of definition would be appropriate for the majority of occupations.

A hybrid definition can also be considered which is based on "own occupation" for two years of benefit payments with future benefit payments based on "suitable alternative occupation."

- **Eligibility**

Consideration should be given to the limitations, if any, placed on individuals that could apply for simplified IP and secure cover. This could be part of each providers risk appetite but equally it may be helpful to define the core market, for example, individuals currently actively employed at the time of application. This is really more a question of setting expectations and it may be better to say at the outset that the

cover is not designed for, say, for those not in employment, rather have all providers of simplified IP decline the risk.

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

- ***Pre-defined product options***

The simplest product would encompass a “one size fits all” design with a simple medical underwriting approach and a single premium rate basis for the vast majority of individuals. Inevitably, this may not meet the needs of all customers and is likely to be relatively expensive for some of the target market. On the other hand, too much choice may discourage individuals from applying and some form of product segmentation may be useful.

We believe the product could be made easier to purchase by developing a range of discrete product attributes that the individual could select at different price points. For example:

Silver, Gold or Platinum levels of cover

Silver – deferred period 26 weeks benefit period 2 years

Gold - deferred period 26 weeks benefit period 5 years

Platinum - deferred period 26 weeks benefit period to state pension age

- ***Workplace simplified IP***

We would strongly advocate the workplace as a primary focus for the distribution of simplified IP. There are a number of key reasons why an individual retail proposition may be less effective:

**A. Affordability:** A simplified workplace IP offering means that premiums can be calculated for a group of employees rather than each employee individually, therefore spreading the risk across a larger group of people and hence making the policy more affordable. Furthermore, there is the opportunity for the employer to subsidise the cost in full or part. Affordability will be vital in delivering a successful simplified IP solution to the target market.

**B. Accessibility:** Even with government support and endorsement many employees may not hear about simplified IP or have the confidence to go out and secure cover. The advent of auto-enrolment and the increased promotion and awareness of workplace pensions makes the workplace an ideal place to secure simplified IP.

**C. Availability:** The workplace will allow greater access as the vast majority of workplace policies will secure a Guaranteed Insurability or Free Cover limit that means all employees will secure some amount of protection whatever their medical history as long as they are actively at work at the time of joining. Even with simplified medical underwriting with yes/no answers, some individuals will not secure cover in the individual market.

Last year, Unum launched an affordable and simplified employer funded GIP providing a “Foundation” level of cover.” The policy provides an income replacement of up to 60 per cent earnings (taxable) until state pension age. Benefit payments cease after two years if the employee is able to perform a suitable occupation that



provides at least two thirds of their previous earnings. If not, the benefit payments continue. If the employer wishes, the benefit payments can be "pay direct" to the employee after they have left service (in which case the benefit reduces the contributory ESA by 50p in the pound for benefit over £85 per week).

We believe this is a viable, simple and affordable IP product for employers and the concept could be adapted for a shared or fully employee funded policy in the workplace. "Pay direct" is an important feature as it breaks the need for an incapacitated employee to remain on the employer payroll and allows the employee freedom to explore other opportunities. One drawback is the way in which the benefit reduces contributory ESA (the IP benefit is treated as a form of pension income after the employee leaves service) and we believe this approach should be challenged with HMRC.

A number of the simplified IP product features under consideration were introduced under Unum Select IP product (which allows shared funding by employer and employee). A comparison of the key features of the suggested simplified IP product and Unum Select IP is provided below. Further information can be provided as required.

Feature	Simple IP	Unum Select IP
Policy type	Individual policy	Group
Pricing	Guaranteed level AP rates - age attained	Age banded SP
Definition of incapacity	Sickness cover only (no redundancy)	Illness & injury
Deferred periods	DP: 4, 13, 26, 52	Limited term = 1/2/3/6/9 months
Financial underwriting	No financial underwriting ≤ £1000 pm. Over this amount applicant states benefit is < 50% earnings	Earnings check
Definition of earnings	TBC	Various definitions provided
Financial underwriting at time of claim	No earnings check	No earnings check
Underwriting/Risk appetite	Set by provider	Accept/reject underwriting An amount of Guaranteed Insurability
Units of cover	Units of cover – can be increased/decreased – increases with minimal underwriting	Provided with ability to increase and decrease

Feature	Simple IP	Unum Select IP
State offset	Claims paid independent of any payments by State	No offset applied
Limited benefit term	Limited benefit terms 1/3/5 years (SPA deemed too expensive)	Limited term = 6, 9, 12, 18, 24, 36, 48, 60 months
Recurrent claims	After claim and RTW for => 6 months can claim again for full term	A member must fulfil Actively at Work requirements for a period of at least 4 weeks prior to a subsequent absence which fulfils the Definition of Incapacity and serve the deferred period before a new claim would be paid.

A valued benefit of workplace IP is the provision of vocational rehabilitation and return to work support for incapacitated employees and we would advocate this as a key component of simplified IP in the workplace. In the same way an associated EAP service could be provided to further increase the tangibility of the offering.

- **Means-tested state benefits**

A key consideration as set out in the Sergeant Review of Simple Financial Products: Interim Report is the impact of IP benefits on means tested state benefits.

We would support the following commentary taken from the interim report

*"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."*

When positioning Unum Select IP product in the workplace we had the same challenge and developed a simple table (See Appendix1) to demonstrate to employees the net/net replacement ratios of various levels of insured benefit to help them make a more informed choice.

Overall, to support self-provision, we would support a full or partial disregard for IP benefits when making an assessment for means tested state benefits.

## Appendix 1

### Net/net replacement ratio table

Contributions 100% paid by EE  
Assumes claimant does not receive ESA

	Insured benefit										
Units	5	6	7	8	9	10	12	15	20	25	30
Annual	£3,000	£3,600	£4,200	£4,800	£5,400	£6,000	£7,200	£9,000	£12,000	£15,000	£18,000
Monthly	£250	£300	£350	£400	£450	£500	£600	£750	£1,000	£1,250	£1,500
Salary											
£10,000	34%	41%	48%								
£12,500	28%	34%	40%	46%							
£15,000	24%	29%	34%	39%	44%	49%					
£20,000	19%	23%	27%	31%	34%	38%	46%				
£25,000	16%	19%	22%	25%	28%	31%	38%	47%			
£50,000	8%	10%	12%	13%	15%	17%	20%	25%	34%	42%	50%

The figures above compare net salary to net IP Benefit and do not factor in state benefits that you may receive under Employment & Support Allowance. Under proposed welfare changes, the Government intends to limit the payment of these benefits for most claimants to a maximum of one year. However, lower income groups may alternatively be eligible for a new Universal Credit which will not be subject to a maximum payment period. In these cases, benefits received from Unum Select Income Protection may affect entitlement to Universal Credit. This reflects Unum's current understanding of state benefit changes which may be subject to change.

# Sergeant Review of Simple Financial Products: Interim Report

## Submission by Virgin Money

### Summary

Virgin Money supports the simple financial products initiative. We believe it has the potential to set good standards among product providers, encourage banks to offer products that can be trusted, give consumers more confidence to make choices about financial products, and encourage greater competition in product markets.

We share the Steering Group's view that simple financial products should sit alongside, rather than replace, existing financial products, as the needs of many consumers are already being met by existing products in the market. However, a clearly identifiable range of simple products, designed in a way that makes them easy for the target market to understand and buy, could encourage people to engage more with financial products and markets than they do at present.

Learning from past experience will, of course, be important. The introductions of CAT standards and 'stakeholder' products – with both of which Virgin Money has had direct experience – were well-intentioned. However, the success of these initiatives was limited because neither captured the public's imagination, or generated the participation of a wide enough number of providers to achieve a significant impact in the market. We respect the willingness of the Government and the Steering Group to learn the lessons of these previous initiatives.

The proposed model for simple products in the Interim Report is similar to the customer proposition already offered by Virgin Money, which is founded on easy-to-understand products with fair and transparent pricing. We are pleased to see that the Steering Group's proposals are aligned with many of the suggestions we made in our response to HM Treasury's December 2010 consultation on simple financial products:

*Product range:* We said that, in order to help establish the simple products concept and build trust, the initiative should start with products, such as deposit savings and life insurance, that are already widely held and used, and are already bought online including through comparison websites, and where the needs of target consumers are not widely different from those of the mass market;

*Scheme principles:* We supported the introduction of a general set of principles that all simple products must comply with, for example in relation to pricing, to reassure consumers that simple products meet essential needs and offer straightforward outcomes. We also thought there should be some standardisation of specific products, to make product comparison easy;

*Branding / kite-marking:* We thought the introduction of a specific brand for simple financial products would support consumer trust and confidence in the simple product range, enable consumers to clearly identify simple products and distinguish them from other products on the market, and help consumers to easily compare, select and buy products;

*Buying process:* We supported the view that simple products should be easy to buy to encourage consumer engagement, that they should not need advice, and that they should be available online including through comparison websites (as well as through other channels such as branch or phone, if there is consumer demand for this, and if providers want to offer it); and

*Awareness-raising:* We shared the view that the Money Advice Service should actively signpost simple financial products for consumers, to help reinforce and raise awareness of the brand. In addition, we thought that comparison websites have an important role to play in consumer education about the benefits of simple products, and in helping consumers to compare and decide between simple products.

We are encouraged that these views are echoed in the recommendations made in the Interim Report, which we think provides a helpful basis on which to move the simple financial products initiative forward.

We have some specific observations about the high-level principles for simple financial products outlined in Chapter 5 of the Interim Report, relating to the 'one issue per brand per channel' proposal, and we also make some recommendations about possible extensions to the product range. In particular:

*Single issue per product:* Restricting providers to one issue of each simple product would encourage simplicity, fairness and equivalent treatment for existing and new customers, and focus simple products on delivering long-term value rather than short-term "bonuses" for customers, which we think would help to build consumer trust. We support these aims. We are concerned, however, that the "one issue" approach may have unintended consequences that could limit the momentum of the simple products initiative and, potentially, damage the simple products brand. These points are considered in our comments in answer to Question 3.

*Differential pricing by channel:* We understand the rationale for allowing providers to offer one product per distribution channel in each simple product category. However, consumer trust in simple financial products, and in product providers, could be eroded if people get a less attractive price for simple products through a branch, for example, than they find available online from the same provider. Differential pricing by channel could also increase substantially the number of simple products on the market, creating complexity for consumers. For these reasons, we suggest that further consideration should be given to the possibility of uniform pricing across all distribution channels, for simple financial products.

*Extending the product range:* We think there is a case for considering the inclusion of personal current accounts in the simple product range at an early stage, as a means of addressing some of the concerns that have been expressed in recent months about the prevailing "free-if-in-credit" pricing model in this market. Introducing simple current accounts may be one way of catalysing better standards, greater price transparency and more competition in this important market for consumers.

Our views on these points are included in our attached responses to the consultation questions. We look forward to engaging further with the Steering Group as it develops the final recommendations that it will make to Government next February, and would be pleased to discuss further the views and suggestions we set out in our response if that would be helpful.

## Answers to 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?**

We agree that there should be a set of high-level principles that clearly outline some of the key features that should be applicable across all simple product categories. This will help to ensure that once simple financial products are launched, they remain focused on delivering transparency, clarity, comparability, straightforward outcomes and effective communication for consumers, and broadening product holdings. Agreeing principles for simple financial products will also give product providers a clear framework within which to develop new products. Creating clear expectations for both consumers and providers of simple financial products in this way will help to build trust in the scheme, and give consistency to the simple financial products brand.

We argued in response to HM Treasury's 2010 consultation on simple financial products that a range of general principles should be supplemented by some standardisation in the design of each simple product category, which we note is a feature of both the simple savings products (as outlined in paragraphs 6.7–6.33) and the simple life cover product (proposed in paragraphs 6.35-6.59). Bringing a degree of commonality to the products, through high-level principles and a degree of product standardisation, will help consumers to compare them more easily, including through comparison websites dedicated to simple financial products, which we believe will have an important role to play in supporting consumer understanding and encouraging competitive pressure on the pricing of simple financial products.

We also welcome the proposal that the high-level principles should be kept under review as part of the governance arrangements for simple financial products (paragraph 8.15). This will ensure that the initiative retains a degree of flexibility, which will enable it to respond to changing market circumstances and consumer needs.

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

We broadly support the high-level principles proposed for simple financial products in the Interim Report, which are consistent in many ways with Virgin Money's own approach, although we have some observations on specific principles that we believe need further consideration. Taking each of the proposed principles in turn:

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

*- 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.*

We agree with these principles. In order to help consumers understand the product features of simple financial products, and to compare them with other non-simple

financial products, we agree that they should carry a prescribed or standardised statement of what features they offer and what features they do not offer, in simple language that mass-market consumers could easily understand.

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

We agree that product names should be consistent across providers. This would support both the Government's aim of making it easier for consumers to navigate financial markets and compare products, and is consistent with the Steering Group's view that providers of simple financial products should compete, in part, on the value associated with their own brands (as noted in paragraph E.16).

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

This principle seems sensible, provided it is robustly policed by the proposed accreditation body for simple financial products, because conditions, options and exclusions that are not clear to consumers, even if they seem entirely reasonable, could reinforce perceptions that the industry lacks transparency, undermining trust in the initiative.

*- Principle 5 - Straightforward and clear purchasing process for the consumer.*

It is vital to the success of simple financial products that they are easy for consumers to buy, as well as for them to understand. Even if the products themselves are simple, straightforward and easy-to-understand, there is a risk that people may be discouraged from purchasing them if the associated buying process is overly complex.

Many mass-market consumers increasingly value the convenience of online transactions, and we believe that consumers should be able to buy simple products online, without advice, including through comparison websites. We therefore agree with the Steering Group's intention for simple financial products to be "non-advice" products that can be bought directly, supported by generic advice from the Money Advice Service (as noted in Paragraph E.15).

Consumers who are less confident about selecting financial products online may benefit more from face-to-face financial health checks with the Money Advice Service, which should be able to give them generic information about simple financial products, and how to buy them. It is also sensible for simple financial products to be available through advisory channels, including bank or building society branches and financial intermediaries, for customers who prefer using these channels, provided that this does not draw consumers into needing regulated advice.

One practical consideration in this regard is how a simple buying process can be ensured for consumers who wish to buy a simple financial product through a bank branch, given existing requirements of the FSA Banking Conduct of Business Sourcebook (BCOBS) on pre-sale information. Unless a consumer has specifically

requested a simple financial product and confirmed that they do not want to receive information about other similar products, it appears that BCOBS would require banks to provide information about other products or services in their range, including their non-simple financial products.<sup>1</sup>

This requirement could complicate the buying process and introduce complexity to consumers' decision-making, potentially discouraging product purchases, and may need further consideration. It underlines the importance of clear 'badging' for simple financial products, and the ability of the Money Advice Service to point people, generically, towards products that carry the badge, to give consumers who prefer to use bank branches clarity about which product they are requesting.

*- 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, term or conditions.*

A transparent and consistent approach to pricing should be a central feature of simple financial products, to build trust and understanding amongst consumers, reduce complexity, and support consumer choice. This should, in our view, encompass a commitment to fair pricing over the life of products, rather than the use of introductory offers or bonus rates, to give consumers certainty over the rate that they will receive or the premium they will pay for their product. Transparency over product charges is also vital, to avoid any perception among consumers or the media of "hidden" charges in simple products, which could damage the reputation of the scheme.

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

*- 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.*

We agree with these principles. As noted above, the costs associated with simple financial products should be clear, transparent and easy to understand – this should apply to charges for exceptional items as much as it does the overall pricing structure of products. Clear communication with customers about the status of their simple financial products, and any changes to prices or returns, will support their understanding of the products, help to maintain their trust in them, and provide a basis for them to engage with their products after their initial purchase decision if they want to.

---

<sup>1</sup>Pre-sale information (not financial promotions) for products and services should, if appropriate, make reference to the availability of similar products and services offered by the firm that the customer may be interested in. For example, if a firm has a brochure for one of its deposit accounts it would be appropriate for the brochure to make reference to the availability of the firm's other similar deposit accounts. Firms are not required to provide information about other products or services where the customer has identified the product that interests them and has expressly confirmed that they do not want to receive information about other similar products.' (Section 4.3.2, Pre-Sale Information), Industry Guidance for FSA Banking Conduct of Business Sourcebook, January 2011



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

We find it helpful to break this question into two parts, looking separately at the proposal to allow providers to offer *one product per distribution channel* for each simple product category (with a different price in each case if the provider wishes), and the proposal to restrict providers to only *one issue* of each simple product they offer.

#### *One simple product per channel*

It is economically rational for product providers to differentiate by channel, so we understand the reason for proposing that providers should have the ability to offer one product per channel for each simple financial product type, and to price these products differently if this suits them. We are concerned, however, that this approach may create confusion for some consumers and increase complexity in the simple products market.

It is important to the overall success of the initiative that simple financial products are easy to understand and easy to buy, without the need for advice, and that they should be available online including through comparison websites. However, while many mass market consumers value the convenience of being able to understand and evaluate financial products online, some may prefer to buy them through their local bank or building society branch, or over the phone. It seems sensible to allow providers to offer simple products to consumers through these channels, if they find that there is demand for this, and they want to offer it. But if consumers find that the product prices available to them through these channels are less attractive than those available online from the same provider, their trust in the fairness and transparency of simple financial products, and in their bank or building society, may be damaged.

Furthermore, differential pricing across channels could introduce complexity for consumers as it would enable large multi-channel providers, if they wished, to offer different rates through each of their channels for a product that is otherwise the same. This could lead to a proliferation of products in each simple product category, each with a marginally different rate. Contrary to one of the Government's key objectives for the simple products initiative, this could make it difficult for consumers to compare and choose between products.

For these reasons, we think that uniform pricing across all distribution channels may better support the objectives of the simple financial products initiative, by removing these potential sources of confusion and complexity, and that this matter should be considered further by the Steering Group.

#### *One issue per simple product*

We support the underlying objective of the Steering Group's proposal to limit providers to only one issue of each simple product they offer. This would encourage simplicity, promote fair pricing of products over the long-term (limiting the need for consumers to actively manage their products after purchase) and deliver equivalent treatment of existing and new customers. As such, if the "one issue" approach is pursued, Virgin Money would work hard to develop a compelling consumer proposition on this basis.

However, we are concerned about two possible unintended consequences of the "one issue" approach in relation to the proposed simple savings products:

- Firstly, at launch, it might result in conservative pricing of simple savings products, with rates that do not initially compare well to 'non-simple' products whose volumes can be quickly and easily controlled through tranche issuance and where offers are often priced to attract new money (including the widespread use of bonus offers). This could lead to criticism of simple savings products by financial commentators and journalists, potentially damaging the simple products brand and limiting the uptake of the products by consumers.
- Secondly, it could result in a build up of deposits in a single simple savings product over time, creating a concentration risk for product providers. In order to mitigate this risk, providers might actively manage down the size of their simple saving product book by lowering the rate paid to customers, damaging the success of the initiative.

These outcomes could discourage the development of a market for simple savings products and, more generally, undermine consumer trust in the wider simple products initiative. One way of avoiding these unintended consequences, while minimising the potential for unequal treatment of existing and new customers, might be to permit tranche issuance of simple savings products, but subject to specific product rules limiting the differential between front book and back book rates.

We would welcome the opportunity to discuss these issues further with the Steering Group.

## 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?**

In response to HM Treasury's 2010 consultation on simple financial products, we argued that the initiative should be launched with a limited range of products, preferably spanning banking, general insurance and life insurance, but not initially including products with capital risk, to avoid complexity. We argued that these should include products that are already widely held and used (to familiarise the concept and build trust in the brand), and are bought online through comparison sites (to limit the need for substantial up front investment to support their launch), and where the needs of target consumers are not widely different from those of the mass market (to limit the potential for mis-selling).

Deposit savings are an important mass-market product, where many customers have broadly similar requirements, and we think it would be desirable for these products to be included in the initial simple financial products range. We are therefore pleased that the Interim Report recommends an easy access savings product, from which savings could be accessed instantly for emergency expenditures, and a notice-based

savings product, which would help to encourage the accumulation of longer-term savings.

There is a well-documented 'protection gap' in the UK and it seems reasonable to consider that this is partly a consequence of a lack of customer understanding about, and access to, straightforward products in this segment of the market. In general, we are concerned about the inclusion of products that are "sold rather than bought" in the simple products range, initially at least, on the grounds that these are less well understood products. However, life insurance is an exception in that it is probably more widely understood than other protection products, and is needed by some homeowners in order to protect their home and family in the event of death. We therefore welcome the inclusion of a life cover product in the proposed initial simple product range.

### ***Personal current accounts***

We said in our recent submissions to HM Treasury on its Banking Reform White Paper, and to the Parliamentary Commission on Banking Standards, that we think there is a case for considering the extension of the simple products suite to include current accounts. These are important products for many consumers, from which they can build wider relationships with financial services companies that enable them to more effectively manage their day-to-day financial affairs and make financial provision for their future. However, the prevailing market practice of offering 'free-if-in-credit' current account banking does not seem consistent with the principle of fair and transparent pricing, and so does not support trust in banks.

There has been considerable debate about this issue in recent months. FSA Chairman Lord Turner has argued that 'free' banking is "not a sound basis for a long-term trust-based relationship between a competitive banking system and its customers"<sup>2</sup>, and Andrew Bailey, Executive Director of the Bank of England, has said that it is "is a myth because nothing in life is free; rather, it means that we pay for our banking services in ways that are hard to link to the costs of the products we receive".<sup>3</sup>

The prevalence of the 'free banking' model for current accounts makes it difficult for new providers to enter this market and bring competitive pressure to bear on the incumbent providers, which is ultimately to the detriment of consumers – an issue that has been considered by the OFT, the Treasury Select Committee and the Independent Commission on Banking over the last two years.

Introducing simple current accounts may be one way of catalysing better standards, greater price transparency and more competition in this important product market. Consistent with the wider approach to simple financial products, 'simple' current accounts would have to comply with simple product principles, including a transparent and consistent approach to pricing, with banks free to determine their own pricing within these parameters, and to continue to offer whatever non-simple product variants they wish. Such an approach could help to encourage a more

---

<sup>2</sup> Banking at the cross-roads: Where do we go from here? Speech by Lord Turner, July 2012

<sup>3</sup> The future of UK banking - challenges ahead for promoting a stable sector, Speech by Andrew Bailey, May 2012

rational pricing structure over time, making it easier for consumers to compare the likely charges of different current accounts.

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

Given the central importance of deposit savings to Virgin Money as both a foundation for building customer relationships and a source of liquidity, most of our comments in answer to this question are focused on the proposed design of the simple easy access account and the simple 30-day notice savings account. Virgin Money does not manufacture life products at the present time, although we do have experience of offering life cover through third-party partners, so we also offer some brief observations of the proposed simple life cover and simple income replacement products.

### **Simple Easy Access Account & Simple Notice Account**

Given the low levels of saving by many people, as identified in the Interim Report, we agree that it is important to encourage more people to accumulate some savings so that they are more able to cope with unexpected financial needs when they arise. We therefore believe there is value in simplifying savings propositions with the objective of extending the existing market for savings.

Virgin Money's current range of savings products is already consistent with many of the criteria proposed for the simple easy access product and the simple 30-day notice savings account in the Interim Report. For example, we do not build introductory bonuses into our savings propositions, and we allow our customers a low minimum balance of £1. In addition, we notify all of our customers personally should their rate change, providing at least 60 days notice if the change is detrimental.

We have included comments on differential pricing by channel and the "one issue per simple product" issue in answer to question 3 above. Our specific comments on other aspects of the proposed criteria for the simple saving products are as follows:

**Maximum balance:** The Interim Report leaves open the question of whether any restrictions should be placed on maximum balances for the proposed simple saving products. Leaving providers with the flexibility to set their own deposit limit might have advantages. The Interim Report notes that there could be benefits in a low maximum balance, because this might enable some providers to offer a better interest rate to customers than would be the case if higher balances were permitted. However, other providers might, for example, find it attractive to set their deposit limit at £85,000, in line with the Financial Service Compensation Scheme's deposit compensation limit, to give entirely new savers the confidence that their savings are completely secure.

**Use within ISA wrapper:** The Interim Report notes that the tax treatment of each of the proposed simple savings accounts has not been considered, but that the working assumption is they would both be capable of being used within an ISA wrapper (as noted in paragraph 6.8). In order to maintain simplicity, we believe there is a strong case for requiring uniform product pricing by providers for their ISA and non-ISA variants of simple savings products. Otherwise, the range of simple products on the market could proliferate, working against the objective of the products supporting easier access for consumers.

***Charges for exceptional items:*** We agree that, for simplicity, there should be no charges for the everyday running of the deposit accounts, and that providers should only be able to charge for pre-specified 'exceptional items', presented in a transparent way for consumers in product literature and customer disclosures. Possible exceptional items mentioned in the Interim Report (replacement passbooks, duplicate account statements and replacement cards) seem reasonable.

***Simple 30 day Notice Savings Account:*** We believe a notice-based saving product would be a helpful addition to the simple easy access product, as it has the potential benefit of encouraging the accumulation of longer-term savings. An unintended consequence of the relatively short term of the notice account, and the ability of customers to access their savings within this term subject to a penalty, may be that the interest rates offered by providers are not substantially different to those of their easy access simple saving products, given the liquidity treatment will be almost identical. In order to make the distinction between the easy access product and the notice product clear for consumers, and to enable providers to offer better rates on the notice products, we think that consideration should be given to a longer notice period (for example 90 days) and to not permitting early access.

### **Simple Life Cover Product & Simple Income Protection Product**

We welcome the Interim Report's vision for a simple, straightforward life cover product. This is strongly aligned to our own proposition development in this area. As we are not a life cover manufacturer, we are not in a position to comment in detail on the potential implications of some of the proposed product criteria, in particular the standardisation of terms and conditions, and of language and presentation in product documentation.

However, we support the underlying objective of this standardisation, which is to simplify consumers' choices in this product market and make the buying process less complex. These aims are reflected in Virgin Money's general approach to product development. It seems important that any further consideration that is given to standardising the T&Cs, language and presentation of the simple life cover product is informed by a clear understanding of what would resonate most positively with consumers, and encourage them to consider purchasing the product. We therefore welcome the Interim Report's commitment to undertake consumer testing in these areas (as noted in paragraph 6.44-6.45).

The Interim Report recognises that some additional product features, beyond the essential "you die, we pay" structure that is recommended for simple life cover, are often desirable for some consumers to have within their life product. It proposes that the Money Advice Service could help to signpost for consumers that these wider options are available outside of the simple products initiative (as noted in paragraph 6.42). We think that the Money Advice Service will need to play a central role in signposting simple products, for the initiative to be successful, and we are uncertain how feasible it would be for the Money Advice Service to also signpost non-simple life products. Further thought should be given to this proposal, in order to avoid complicating the Money Advice Service's focus and role in simple financial products.

**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?**

Introducing a simple financial product category for income replacement protection may help to encourage the industry to develop new products that make consumer choice easier in this market. Further development and agreement on the design of this simple product category would therefore be welcome.

However, as we argued in our submission to HM Treasury's December 2010 consultation on simple products, we are concerned about products being included in the initial simple product range that may not be widely understood by consumers and that may have, in the past, tended to be "sold not bought" as a consequence. We argued that income protection fell into this category.

We suggest that it is sensible to establish awareness of the concept and branding of simple financial products by starting with the proposed simple savings products and simple life cover, as products in these markets are already widely used and understood, with the possible addition soon after of current accounts and basic bank accounts. To achieve market extensions in income protection, we suggest that further thought should be given to the design of a simple financial product in this area, and that its introduction should be deferred until the simple financial products concept is established and the branding is recognised by consumers.

## **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?**

Introducing an effective badge for simple financial products, underpinned by a strong brand, seems desirable. It will help consumers – particularly those who are less confident interacting with financial products – to easily identify the products, clearly distinguish them from 'non-simple' products, and compare, select and buy simple products.

We would envisage the badge forming a key component of signposting activity undertaken by the Money Advice Service, through its financial health check service, and by other trusted intermediaries such as Citizens Advice, housing associations, local authorities, student money advisers, and third sector groups like Age UK, which routinely come into contact with the target consumers. Consumers for whom simple products are appropriate could be "pointed" to products bearing the badge, and where they can be found, helping to simplify the purchasing process for them.

We note that the main discriminator proposed for simple financial products is "ease", on the basis that the products should be easy to understand, compare, buy and manage (as noted in paragraph 7.7). We agree that ease for consumers is important, in order to encourage them to engage with the initiative and to consider purchasing simple financial products. However, we believe that the simple financial products brand should also emphasise "quality" and "reliability", so that mass-market consumers have confidence that the products do what they are expected to do. We agreed that consumer research will be an important next step in developing the badge (as proposed in paragraph 7.9).

## 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?**

While it is desirable to minimise bureaucracy, we agree that there is a need for an accreditation process for simple financial products, to ensure standards and principles are complied with, and to avoid “cheating” by providers which could damage the simple financial products brand and limit the overall success of the scheme. We comment below on various aspects of the proposed accreditation arrangements.

### *Accreditation body & governance structure*

The Interim Report proposes a small independent accreditation body, which would own and licence the simple financial products badge, with a governance structure comprising a chair and five non-executive directors with “relevant consumer and regulatory experience in financial services or other complex markets and some recent practitioner experience” (paragraph 8.14). This mix of skills and experience seems appropriate given the role of the accreditation body. Ensuring that the individuals appointed to these roles are sufficiently independent from the industry will be crucial, to avoid consumer or media scepticism about the pro-consumer focus of the initiative.

We are encouraged that the Money Advice Service is identified in the Interim Report as the organisation that should support the work of the accreditation body, subject to a feasibility study and the development of a business case (as proposed in paragraphs 8.11-8.12). We think that the Money Advice Service has a pivotal role to play, both in raising awareness of simple products and sign-posting them, including through the introduction of comparison tables for simple products (as suggested in Paragraph 4.8). Giving the organisation a supporting role in the accreditation arrangements, as suggested in the Interim Report, will lock it into the initiative, which we regard as a positive step.

As we have noted in previous answers, we think it is also important for simple products to be available to consumers online, without advice, through comparison websites. To help address concerns that providers may have about their simple products not being visible on comparison websites or “best buy” tables, we think there would be merit in seeking a commitment from the leading comparison websites to support simple products and to list them separately. If it is possible to secure a commitment of this kind, there may be a need for the accreditation body to put in place a mechanism to ensure that simple products are being transparently and helpfully displayed on comparison websites, to reassure simple product providers and avoid any providers receiving an unfair advantage.

### *Licensing arrangements for simple products ‘badge’*

The licensing arrangements for using the simple financial product badge, and in particular the licence fee that providers will have to pay, are a particularly important

consideration. Getting the balance right will be critical: the licensing process will need to ensure that the accreditation body is sufficiently resourced to discharge its functions in a robust and effective way, but that the cost to the provider does not impact materially on the viability of individual simple products (and therefore providers' willingness to develop and launch them). The report notes that a full business case will need to be developed around this process; it will be important for potential product providers' views to be taken into account as part of this.

#### *Scrutiny & reporting arrangements*

Consumers and consumer groups would be reassured by a commitment to publish reviews of the simple financial products scheme after it has been launched, and learning from experience will also be important to the overall success of the initiative.

We therefore welcome the proposal that the accreditation body should be required to publish an annual report on the impact of the initiative, along with periodic reviews of whether the initiative is delivering on its original objectives (as proposed in paragraph 8.15). The proposal that the accreditation body should also have to keep under review the high-level principles for simple products, and the need for new types of products (as noted in paragraph 8.15), will ensure that the initiative retains a degree of flexibility that will enable it to respond to changing market circumstances and consumer needs.

## **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?**

We agree that ongoing and systematic consumer research should be undertaken to evaluate the impact of the initiative on reducing the savings and protection gap, and understand whether people are finding it easier to buy financial products. It could also provide helpful insights into brand awareness. These research findings will enable the accreditation body to adjust its approach, where necessary, to improve consumer outcomes, and to be held to account more effectively.