

Sergeant Review of Simple Financial Products: Interim report

Gen Re response – 12 October 21012

Gen Re is a professional reinsurer and part of the Berkshire Hathaway group of companies. Gen Re reinsures both non life and life lines of business from its clients who are insurers in the primary market. This response has been prepared on behalf of Gen Re Life Health, who reinsures all lines of protection business including life and income protection.

Gen Re is supportive of the review of “Simple Financial Products”. It is clear that many people do not have adequate savings or protection cover and in the worst case scenario have no savings or protection cover at all. The reasons for this are many and varied and have been outlined in the report. This is often caused by lack of understanding, lack of access and inertia, but undoubtedly a significant cause is product complexity and the “Simple Financial Products” initiative is therefore timely. The project team acknowledge that this is a long term initiative and that solving product complexity is not necessarily going to be the “magic bullet”. There will also need to be a campaign to engage customers and educate them, but we appreciate that this sits outside of the scope of this project brief.

We have limited our comments to pure protection products.

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, which govern Simple Products and provide a framework for a future accreditation process.

Consultation question 2

Do you have any comments on the proposed principles?

The proposed principles seem sensible and well thought through.

Further consideration should be given as to what a straightforward and clear purchasing process might look like.

Consultation question 3

Do you agree that firms should be limited to one issue of each Simple Product type?

Given that the review has been focussed on the concept of “Simple” and on providing the customer with a clear view of what this means, it would seem sensible to limit firms to only one issue of each Simple Product type. Allowing more, would lead to confusion and could detract from the basic principle of simplicity.

Consultation question 4

Do you agree with this initial suite of Simple Products?

The initial suite of Simple Products seems appropriate.

We would welcome the inclusion of income protection at the earliest opportunity, given that protecting income should be at the cornerstone of peoples' lives.

Consultation question 5

Do you have any comments on product design?

Whilst it would be preferable to see a Simple Product without any exclusions, we feel that a suicide exclusion is a useful risk management tool.

We appreciate that simplifying/standardising underwriting questions could prove to be difficult, however, we feel that it could help the buying process significantly. Applicants would know that they were being measured against the same initial set of criteria, irrespective of who they decided to buy a "Simple Product" from.

Consultation question 6

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

Getting the balance between appropriate and tailored cover on a Simple Income Replacement Product is difficult and inevitably some compromises need to be made. We understand the logic for giving four choices of deferred period and three choices of income payout, but maybe in the interests of simplicity and providing "appropriate" rather than "tailored" cover, it may be possible to reduce this even further.

The concept of being able to buy cover in units of £100 per month is good, as is the suggestion of no financial underwriting up to £1000 per month. A replacement ratio or maximum of 50% of earnings could be a difficult message to get across; we would suggest an overall cap of £1000 per month with no percentage cap. The standardisation of the definition of earnings is really helpful.

The key to offering a "Simple Income Replacement Product" will be in keeping terminology simple and understandable and we agree that there will need to be a move away from the words we currently use to describe the product. It will be critical to ensure that having a "Simple Income Replacement Product" does not hinder access to means tested state benefits.

Consultation question 7

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

Fundamentally we believe that an income protection product could be made sufficiently straightforward to qualify as a “Simple Product”, but further work will need to be done to define and agree this.

Consultation question 8

Do you agree with this approach?

We agree that a Simple Products badge should be created to signpost Simple Products for the consumer in a complex market place. Whilst we agree that in isolation, this will not be sufficient to move people to action, it will help the consumer recognise that a product has been judged simple enough to be bought without advice. It will also help the customer recognise that the product has been assessed against a given set of minimum standards and passed as suitable and fit for purpose.

Consultation question 9

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

We agree that there should be a formal and independent accreditation process. This process should not be complicated or bureaucratic. The product design is simple and either the products conform or they don't.

Consultation question 10

Do you agree with the proposed approach to accreditation?

It would have been good to see the Government or FSA (FCA) involved in the formal accreditation process, but your Interim Report appears to rule this option out.

We feel that the creation of a new accreditation body could prove costly and overly cumbersome.

Consultation question 11

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

We agree that further consumer research will be required in order to support the Simple Products initiative. The costs, funding, objectives and benefits will need to be carefully considered.

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

11 October 2012

Dear Sir/Madam

Simple Financial Products Interim Report Consultation

On behalf of Group Risk Development (GRiD), I am responding to the recommendations and consultation questions raised in the Interim Report of the Sergeant Review of Simple Financial Products. GRiD welcomes the publication of the Interim Report which sets out a sound basis from which a suite of simple savings and protection products could be developed.

We have participated directly in the consultation process leading up to the Interim Report and look forward to continuing our involvement with a view to delivering a set of simple protection products which consumers can feel confident in purchasing.

Founded in 1998, GRiD encourages awareness and uptake of corporate sponsored group risk protection benefits – group income protection, group life insurance and group critical illness cover – on behalf of its members, which include providers, reinsurers and advisers.

Between them, GRiD members deal with the placing and insurance of the vast majority of cover in the group risk market and our membership has a collective wealth of experience built over years of operating in the group risk protection market. Our response to this consultation draws on this expertise and focuses on the areas where we are most able to make a contribution.

Our response has been compiled from a working group drawn from a representative sample of our membership and reflects our combined views, although it may not represent the views of each member company.

We are happy for our response to be made public and also to discuss any of the issues we have highlighted.

We particularly recognise that there is an important role for employers to play in providing access to simple products (and, alternatively, in providing more by way of protection benefits through the employee benefits package). The group risk market has a significant potential role to play in supporting this. To this end, we would suggest that a work-stream specifically on the employer role would be beneficial and we would be happy to lead on that.

Overview of Group Risk Protection Insurance

Employers will often promise certain benefits (e.g. occupational sick pay) to employees as part of the contract of employment. Rather than bear all of this risk themselves, many employers choose to take out group risk insurance policies to cover some or all of their liability.

A brief description of the two group risk protection insurance products pertinent to this consultation (group life assurance and group income protection) is set out below:

- **Group life assurance** - is a policy taken out by an employer to provide a lump sum benefit and/or a spouse's/dependants' pension payable on the death of an employee whilst in service. While some group life benefits are provided as part of an occupational pension scheme others will be provided under 'stand-alone' schemes without any link to a pension scheme.

47,700 schemes cover 8.2 million people for death benefits valued at £926 billion (40% of all insured UK life cover)¹. This represents 28% of the working age population².

The group risk industry paid out 8,212 death claims in 2010, valued at £745 million. The average claim was £90,678.³

- **Group income protection** - is a policy taken out by an employer to cover their promise to provide sick pay to employees if illness or injury prevents them from working for a prolonged period. It can also replace lost income where an employee has to take a part-time or lower-paid position because of illness or injury.

If the employee cannot work due to illness or injury the policy will pay a benefit of a proportion of their salary. The benefit is paid to the employer and then passed on to the employee through the PAYE system. The benefit level is designed to ensure that the employee will be able to maintain a reasonable standard of living but still has a financial incentive to return to work.

Insurers will also work with the employee and their employer to get them back to work as soon as it is appropriate – e.g. by providing access to physiotherapy or Cognitive Behavioural Therapy sessions. Insurers have expertise in this area and can provide access to excellent support

¹ Swiss Re "Group Watch 2012"

² 29.56 million people in employment aged 16 and over - ONS Labour Market Statistics, September 2012

³ GRiD 2011 Claims Survey

services which may not otherwise be available to the employer and employee.

17,300 schemes cover 1.8 million people for income protection benefits totalling £51.8 billion (75% of all insured UK income protection cover)⁴.

However, this only represents 6% of the working age population⁵ so the vast majority of workers still do not have this valuable protection through their employer.

The group risk industry paid out £292.3m to a total of 13,500 families during 2010, thus saving the State considerable burden, both before and after State Pension Age. The average claim was £21,543 pa.⁶

It's important to recognise that employers are not obliged to provide any of these benefits and those that do therefore make a sizeable contribution towards protecting the UK population against the financial devastation of loss of earnings as a result of death, illness, accident or disability.

It is also important to recognise that employer sponsored group life assurance and group income protection gives employees access to protection at no cost (or significantly reduced cost) and that, generally, a generous basic level of cover is given to all members of a group policy without the need to provide medical evidence and irrespective of their state of health. This is extremely advantageous – not only for those who might otherwise not be able to afford to make their own provision but also for those who have health conditions that might otherwise mean that they are either declined or charged extra premiums for cover under an individual policy.

Given that there are currently 3.9m working age people in employment with a long-term health problem or disability,⁷ accessibility to protection cover is crucial to improving financial resilience for this section of the UK's workforce.

We would suggest that Government has a key role to play in raising awareness of the need to protect income against the consequences of death or prolonged disability and the importance of the workplace in doing this, in the same way they have done for pensions. There would be far less need for Simple protection products if more employers made greater provision for their workforce.

We believe that the group risk market has a significant potential role to play in supporting Simple protection products through the workplace. GRiD would

⁴ Swiss Re "Group Watch 2012" and "Term & Health Watch 2011"

⁵ 29.56 million people in employment aged 16 and over - ONS Labour Market Statistics, September 2012

⁶ GRiD 2011 Claims Survey

⁷ ONS Labour Force Survey September 2012, Summary Table A08 Labour market status (employment, unemployment and inactivity) of disabled people

therefore welcome the opportunity to provide any assistance required and to discuss our response in more detail. If this would be helpful, please contact me in the first instance.

Yours faithfully

Katharine Moxham
Spokesperson
Group Risk Development (GRiD)



GRiD's Response to the Simple Financial Products Interim Report Consultation

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, we agree that there should be a set of high-level principles forming the guidelines against which Simple Products are assessed. These are vital to focus product development and to ensure that the consumer is not faced with a plethora of unnecessary variables and nuances which can be a barrier to engagement.

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

We have no comments to make on the proposed principles. They all appear appropriate, reasonable and achievable.

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

We can see the argument for firms being limited to one issue of each Simple Product type, per brand, per channel, to ensure equal treatment of new and existing customers and avoid the inevitable confusion for the consumer that ensues when multiple product types are prevalent.

However, consideration must be given to the fact that underlying premium rates for Simple protection products may need to be revised from time to time – often in response to legislative changes, such as the imminent move to gender-neutral pricing. Prices may also be improved with experience and as a result of competitive forces between insurers, so consideration should be given as to how this could be accommodated without contravening the “one issue/equal treatment of new and existing customers” principle.

Additionally, there should be scope for the prescribed, uniform underlying Simple protection product terms and conditions to evolve over a period of time – again to reflect legislative changes such as entitlement to State benefits on disability, and consumer input. How might this be initiated and managed?

If providers are prevented from being able to respond to market conditions, it could weaken their suitability for consumers and lead to limited appetite for writing Simple protection products.

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 agree that savings and protection products should be the initial areas of focus but we are disappointed that a Simple Income Replacement product remains a work in progress. Basic financial planning theory dictates that the primary building block for financial resilience is protecting income.

In 2002, Swiss Re first identified the scale of the life assurance and income protection gaps in the UK. These figures are updated on an annual basis.

At the end of 2011, the Life Assurance Protection Gap stood at £2,400 billion (equating to half the UK adult population - about 24 million people - having a life protection gap averaging £100,000⁸) and the Income Protection Gap at £190 billion annual benefit⁹.

⁸ Swiss Re, 2010

⁹ Swiss Re “Term & Health Watch 2012”

Over the ten year period since 2002, the amount of the Income Protection Gap has increased by 46% from £130 billion annual benefit to £190 billion annual benefit. This increase is greater than any inflation measure over the same period. 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.¹⁰

We would encourage the Review team to press on with all speed to resolve this potential omission from the initial Simple Products suite. If income is not protected, any Simple Savings and/or Life Cover products purchased by a consumer are likely to lapse in the event of a loss of income through illness, accident or disability!

We also wonder if the proposed initial suite of Simple Products is ambitious enough. Should it have also included funeral plans or healthcare cash plans for example?

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

Simple Savings Accounts

We have no comments on the proposed Savings Accounts product design as this falls outside our area of interest.

Simple Life Cover

We agree with the Simple Life Cover product design. We do not consider it necessary, for instance, to include terminal illness cover within the product design. Simple Life Cover should be designed to do exactly what it “says on the tin” – i.e. to provide funds to support family and dependants on the policyholder’s death.

We also agree that the only reasonable exclusion should be for suicide within the first 12 months of the policy and that the terms and conditions for this product should be uniform across providers.

We agree that an annual benefit statement would act as a suitable reminder to policyholders to consider whether their circumstances have changed and, if so, whether they need to make any changes.

We would suggest that there are a couple of oversights in the product design, given that the target market for Simple Life Cover will mainly be 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 chosen dependants without being held up by probate and free from inheritance tax.

¹⁰Swiss Re “Term & Health Watch 2012”

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 (and it may be appropriate to build in an upper benefit limit to avoid abuse by those who might otherwise use a Simple Life Cover product in order to mitigate their potential inheritance tax liabilities).

Applicants should also be asked in the application for cover to state who they would like to receive the proceeds from the policy (and in what order and what percentage). Policyholders should also be reminded in the annual benefit statement to update this information if necessary.

Life cover under a Group Life arrangement is paid quickly subject to proof of claim. When it is written within a registered pension scheme, it is payable free from inheritance tax up to the lifetime allowance (currently £1.5m) under a discretionary trust, whereby the employer or affinity organisation as the policyholder/trustee directs the payment using a simple nomination form. This is generally very effective in achieving prompt payment.

Group Life cover may also be written under an excepted group life arrangement where no lifetime allowance applies although legislation currently requires a common benefit formula to be used to calculate the cover for all members.

Consultation 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. However, the reality is that the market has struggled to deliver sufficiently compelling pricing or consumer messages and the income protection gap continues to grow (see response to Question 4).

We believe that the proposed Simple Income Replacement product could appeal to the target market but would comment specifically on the following aspects:

Proposed Short-Term Benefit Pay-out Periods

Whilst we might prefer more comprehensive cover which would pay out up until State Pension Age, products which pay for a shorter period are now commonly offered by employers as an alternative and 26% of all lives covered under employer-sponsored Group Income Protection arrangements are covered for a benefit pay-out period of between one and five years¹¹.

¹¹ Swiss Re 2012

However, if the Simple Income Replacement product design is adopted as proposed, extreme care must be taken to ensure that consumers are left in absolutely no doubt that this is a product that only pays for a limited period of time and that the intention is:

- to allow a reasonable period in which to achieve rehabilitation back into the workplace, and
- to allow the policyholder 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, and to adjust financially to the loss of their employment income.

Consumers should also be signposted to contacting an adviser or product provider if they want to insure a replacement income payable up to State Pension Age.

Otherwise, there could be consumer accusations of not meeting the “certainty of outcome” principle, which would greatly damage the brand. (The extent of such damage should not be underestimated - one such campaigner now has 13,000 followers on Twitter.)

Choice of Deferred Periods

We agree that a choice of deferred periods should be offered in order to reflect the different levels of long-term sick pay and income protection offered by employers as well as levels of savings held and other sources of possible income.

However, achieving effective early co-ordination between policyholder, treating physicians, employers and income protection providers is vital since the optimum time for achieving effective interventions for rehabilitation back into the workplace is during the first few weeks of absence – especially for mental health/stress related conditions and musculoskeletal injuries.

We welcome the decision to initiate a roundtable to create a set of questions that employees should ask of their employers regarding workplace entitlements so that they understand what is available to them through their employer. This will enable them to make a decision about the need (or not) for a Simple Income Replacement policy and to make an appropriate choice of deferred period and pay-out period.

Definition of Disability

The proposed Simple Income Replacement product design makes no mention of the definition of disability upon which qualification for benefit payment will

be assessed. Whatever the approach taken, the definition of disability needs to be clear and well explained.

It could be argued that an “own occupation” definition (i.e. if you cannot do your own job, we pay) might best meet the goals of the “certainty of outcome” principle and of allowing the policyholder a period of time to adjust financially to the loss of their employment income under a short-term pay-out policy.

Equally, it could be argued that other, less generous definitions (e.g. “suited occupation” – if you cannot do your own job and you cannot do a job that you are suited to by your transferable skills, we pay) could keep costs more affordable.

A different approach altogether might achieve more adequate longer-term protection for those with severe long-term conditions whilst requiring those who could reasonably be expected to work to do so (e.g. assessment for benefit on an “own occupation” basis during a rehabilitation period of, say, one year, then assessment for benefit on a “suited occupation” definition thereafter **but** with the benefit paid to State Pension Age).

This is a significant omission from the proposed Simple Income Replacement product design. We would therefore suggest that a work-stream specifically on the definition of disability would be beneficial and we would be happy to lead on that.

Benefit Inflation Proofing

The proposed Simple Income Replacement product design makes no mention of any option to build in any inflation proofing of the benefit when in payment. However, since the Simple Income Replacement product proposed only has a short-term pay-out period and, in the interests of keeping things simple, we would suggest that no option for inflation-proofing the benefits during the pay-out period is offered.

Effect on Means-Tested State Benefits

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

We do not believe that the solution to this issue is to disregard any pay-out from a Simple Income Replacement product when making an assessment for means-tested State benefit.

Simple Income Replacement could rather be put forward as means of lifting people out of State provision for a limited period of time, with them falling back

into the State system once any Simple Income Replacement pay-out has come to an end. Again, the message should be that this is a means of achieving a period of financial breathing space whilst making lifestyle adjustments and to allow a period within which to achieve a sustainable return to work.

Obviously, there will be those on low incomes for whom State benefits would represent better value than the Simple Income Replacement product. We do not think that it is realistic to ask for the benefits from a Simple Income Replacement 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.”

Consultation 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 target market need and proposition rather than creating a cut down version of a current income protection policy.

When communicating/marketing the Simple Income Replacement product, we would also advocate that due emphasis is placed on the fact that this is as much a vocational rehabilitation service as an insurance product.

We would also recommend that the Endorsement Scheme considers providers' vocational rehabilitation capabilities and track record as well as the product design when awarding the Simple Products badge.

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, we agree that a Simple Products badge should be created and tested with consumers and with consumer groups.

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?

We support this in principle, provided the accreditation process is not overly-bureaucratic. Potential providers could be off-put if this process is excessively slow and/or costly.

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

Yes, we agree with the proposed approach to accreditation.

Research Recommendations

Ongoing research is required to:

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

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

We support the use of ongoing consumer research to develop and test straightforward language, processes, product design and a Simple Products badge plus how best to promote the Simple Products brand.

The research should also evaluate the potential impact of the initiative in reducing the savings and protection gaps and ongoing research should evaluate the effectiveness of the Simple Products initiative.

Although consumer research from a number of organisations has shown that consumers find financial products, services, processes and language confusing, these findings have too often been ignored.

For example, despite research showing consistently that many relate the term “income protection” to replacing income if they are made redundant or unemployed, we have too often engaged in internal industry debate about which part of the market should have proprietary rights to the name, ignoring the fact that it is inadequate in most circumstances.

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

Group Risk Development (GRID) October 2012



Brendan Cook

Head of Retail Banking and Wealth Management UK

Carol Sergeant, CBE
Chair, Simple Financial Products Steering Group
c/o Association of British Insurers
51 Gresham Street
London
EC2V 7HQ

12 October 2012

Dear Ms Sergeant,

Re: HSBC response to Simple Products Interim Report

HSBC welcomes the opportunity to respond to this consultation. We remain fully committed to ensuring straightforward products are available and clearly signposted for customers. We want to play our part in helping to restore trust in financial products, and the sector more generally, ensuring that customers are able to engage in the market with more confidence.

As outlined in our attached response, HSBC is broadly supportive of the conclusions reached in the interim report including: the high-level principles identified; the recommendation that firms should be limited to one issue of each Simple Product type, per brand, per channel; the initial suite of Simple Products identified; the proposed product design; the need for a Simple Products badge; and the need for a formal accreditation process.

There are two areas of the interim report, however, with which we have concerns.

1. We are concerned by proposals to establish a new Independent Accreditation Board, fearing this could risk adding unnecessary costs to products and confusing customers already faced with a number of new financial services bodies. We believe a preferable solution would be to explore how existing bodies, such as the Money Advice Service, could undertake the accreditation function and whether on-going monitoring of compliance could be incorporated into the existing regulatory regime.

Continued....

HSBC Bank plc

Head of Retail Banking and Wealth Management UK, Level 26, 8 Canada Square, London E14 5HQ

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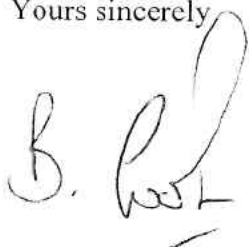
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Carol Sergeant
12 October 2012
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2. We are not convinced by the case that the research to support the initiative is required on an ongoing and systematic basis. Instead, we believe it would be more effective for this work to be incorporated into the wider consumer research undertaken by bodies such as the FCA and Money Advice Service to ensure full account is taken of other developments in the market, and enable the Simple Products initiative to be viewed as part of the picture rather than in isolation.

We look forward to participating in this work and taking it to the next stage. We would be happy to discuss our response with you, and take part in any future working groups, so please let me know if HSBC can provide any further help.

Yours sincerely



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CONFIDENTIAL: WE THEREFORE REQUEST THAT THIS RESPONSE IS NOT DISCLOSED TO ANY THIRD PARTY WITHOUT FIRST OBTAINING OUR WRITTEN CONSENT.

Sergeant Review of Simple Financial Products: Interim report
HSBC Response to Consultation

Chapter 5 Simple Financial Products Principles

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

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

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

HSBC believes it is helpful to provide further definition to the concept of Simple Products so that both customers and firms are clear about what to expect from the initiative. As a result, we support the concept of high-level principles which will guide the creation and identification of Simple Products. We believe the proposed principles are sensible. We are also happy to support the proposal that firms should be limited to one issue of each Simple Product type, per brand, per channel.

Chapter 6 Simple Financial Products

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

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

HSBC supports the initial suite of Simple Products and the proposed high-level criteria for product design. We believe that it is neither practical nor desirable to reduce consumer choice by having a completely standardised range of simple products, and believe it would be more effective for firms to work within the confines set by the high-level criteria and ensure standardised explanations and comparison methods across industry.

We believe it is important that existing products can be put into the suite rather than creating new products. We already have straightforward savings and protection propositions with clear and comparable features capable of meeting the criteria and do not believe there is a need to create a new range to be badged as 'simple products'. To do so, we believe, would enhance consumer confusion and perpetuate inaction.

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?

We believe that it would be possible for a Simple Income Replacement Product to be made sufficiently straightforward, but it is clear that additional work is needed before this proposal can be advanced. Before deciding whether the product should be included in the Simple Product suite, research should be undertaken into any current consumer detriment caused by product complexity. This will ensure that steps can be taken to ensure that a Simple Product meets customer needs. We believe initial explorations in this area should look at common terms and conditions for products, and a common application form.

Chapter 7 Endorsement

Consultation question 8: Do you agree with this approach?

We support the need for a Simple Products badge and believe this will be critical to securing customers' engagement with simple products. In particular it will enable customers to identify Simple Products, and will provide a recognisable mark of quality. However, as covered in more detail in response to Question 9, we believe this signposting will only be effective if the badge is endorsed by a well-known and trusted body.

We support the recommendation that consumer testing is undertaken before any proposal is finalised. Securing customers' engagement with the initiative will be vital, so research will be needed to ensure the badge and associating marketing chimes and has resonance with customers.

Chapter 8 Governance

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?

We support the need for a formal accreditation process. However we have serious concerns about the proposal to establish an independent body of people specifically tasked with overseeing the initiative.

The establishment of a new Independent Accreditation Board, with the staffing levels proposed in the interim report, could impose significant costs on the Simple Products initiative. These will inevitably filter into the product cost, and therefore risks making the Simple Products range unappealing to customers from the very start. We are also concerned that the establishment of an entirely new accreditation body will fail to give customers confidence in the Simple Products badge, as the body will be unknown to customers and will therefore have no bank of trust or goodwill to draw upon. Attempts to address this by establishing brand awareness will require a high level of marketing, again adding to costs.

At a time when the Money Advice Service is seeking to increase its profile, and when the FCA is about to be established and will need to undertake a similar task, we cannot understand the logic of creating a third body in this sphere which will need to compete for consumer awareness and trust. The interim report accepts that "there are a number of existing bodies who might be well placed to take on the work and graft it on to their existing functions", so we are unclear why this approach has not been pursued and would welcome clarity on this aspect. In particular, we are unclear why the Money Advice Service could not adopt this accreditation role instead of the proposed approach that it would support the accreditation body.

As noted in the interim report, we are aware that the FSA has, in the past, expressed opposition to the concept of playing a role in the accreditation of products. In light of the weight of Government support behind the Simple Products initiative, we believe it would be worth re-examining the role the regulator could play in this initiative. If the FSA remains steadfast in its refusal to play a role in accreditation, we believe their role in monitoring and enforcement of the initiative should be examined. One potential solution would be for the Money Advice Service to undertake the initial accreditation process, with on-going monitoring of compliance falling to the FCA, as it will be then. Our existing savings and protection propositions are already subject to the FSA's conduct of business rules which provide sufficient protection for customers, and we fail to see why Simple Products could not be similarly covered.

Research Recommendations

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

We strongly support the need for further research to be undertaken in advance of any planned roll-out of simple products, and welcome the proposals made in Chapter 10. It will be important to ensure that future research is undertaken by an independent body, and we would support the establishment of a working group, reflecting the full range of stakeholders involved in this project (including banks, insurance companies, regulators and consumer groups), to inform the commissioning process.

We believe there is a need for a two-step approach for further research. As a first step, research should be undertaken to assess consumer views on the initiative including whether they believe it will be useful and reflect their needs, and whether they support the proposed product design. We believe it would be helpful to commence this research as soon as possible so that it can inform the Review's final report. After this research has been undertaken and assessed, it would then be possible to move on to the second step, where tests should be undertaken on how the products could be best marketed, the language used, and the look and feel of the Simple Products badge.

Following any roll-out of Simple Products, we would support a post-implementation review to assess how the initiative has been received by customers. Linked in to this, we believe it is essential that the Government articulates more clearly the outcomes it is seeking to achieve from the simple products initiative. It will be impossible to assess whether the initiative is delivering if no clear targets have been laid against which to assess success.

While we support the need for initial research and a post-implementation review, we are not convinced that research to support the initiative is required on an on-going and systematic basis. Instead, we believe it would be more effective for this work to be incorporate into the wider consumer research undertaken by bodies such as the FCA and Money Advice Service. This would ensure that full account is taken of other initiatives and developments in this space, and enable the Simple Products initiative to be viewed as part of the picture rather than viewing it in isolation. We feel this would give far more useful information to policy makers about customer needs going forward, and will also avoid further unnecessary costs being added to the Simple Products range.

Income Protection Task Force response to interim paper on Simple Financial Products

Consultation Question1 - High-level principles

We believe that a set of high-level principles is helpful as a starting point. Our impression is that there is a division in the market between those who want Standard Terms and Conditions and others who believe that a set of CAT standards would be more practicable. This is a hugely important opportunity to reach a new market with a product that provides extremely important cover for many people and we hope that the industry will be willing to grasp it. In our view CAT standards might facilitate this process more effectively than standard Ts & Cs.

Consultation Question 2 - Comments on proposed principles

We believe this is a very sensible basis for these products.

Consultation Question 3 - Limitation of Simple products

We have restricted our comments to Income Protection and believe it would probably be usual for companies to have only one simple IP product per brand.

Consultation Question 4 - Initial Suite of Simple Products

Commenting on other products is outside the scope of this IPTF response. We believe it is **essential** that income replacement is included in this initial suite.

Consultation Question 5 - Comments on Product design of suggested initial suite

No comment.

Consultation Questions 6 and 7 - Simple Income Replacement

We have commented in some detail given the nature of our interest in the product and our belief, reflected in your comments in the initial report, that a product of this type should form a crucial part of a simple products regime. Our comments are initially focused on the overall way in which we believe an initiative of this sort might operate most effectively and then we have drilled down into a more specific level of detail concerning some aspects of income protection.

Given the importance of income protection as an **absolute priority** for many millions of people in the UK, we were disappointed that the report does not propose that income replacement should be in the first phase of your work. Given the potential vulnerability of such a large number of people to severe financial hardship should long-term illness or serious injury strike, we feel that it should be looked at as totally essential. While we feel that more work needs to be done in quantifying the market for IP and the nature of the cover most appropriate to the families you have identified, the work you have done does reveal that a very significant number of UK families could be fundamentally affected should health problems strike and we believe this could be the catalyst for encouraging a number of the main protection insurers to develop a more accessible solution to the challenge of providing effective disability cover.

In our view a basic, standard product would be an important entry level purchase which would enable many more people to buy this essential product with confidence and give them a higher

level of understanding of the importance of acquiring this cover. We stress the term “entry level “ because we hope and believe that some consumers will take the opportunity to top up this cover with a more bespoke solution providing cover to augment this basic underpin.

We do however have some doubts about the likelihood and advisability of the industry agreeing standard terms and conditions for an income replacement product. Leaving aside the issue of whether this is commercially desirable, recent history within the industry, most notably, the 'Sandler' suite of products, suggests that this is not an effective way to develop a product and can lead to an enormous amount of debate and discussion, often resulting in a fudged outcome which does not ultimately produce a product which represents good value to consumers.

Our view is that a set of agreed standards, which operate in the best interests of consumers, is not only a much more pragmatic solution but it is also one that will encourage competition and innovation within the market, whilst operating within an agreed and acceptable framework.

We have a real concern that adherence to standard terms would leave price as the only variable as service is not measurable to the consumer at the point of sale. This would possibly create too much pressure to reduce rates below a commercial level - in effect a price war. A consequence of a price war further down the road is potential consumer detriment if companies have to be overly tough in their treatment of claims because of very tight profit margins in their pricing.

The dynamics of what we hope will eventually be a burgeoning market are something that we need to consider. It is vitally important that this is an attractive opportunity for insurers and that they can envisage significant volumes of new business to supplement but not replace more traditional IP. We would be very keen to see a sound and clear set of principles for the product rather than being too prescriptive in creating fixed terms and conditions. We would also be keen that buyers of the simple product be informed about how they could consider adding to this cover

We hope that the Money Advice service is able to engage with employers and advisers to help promote the Simple Products initiative and to facilitate access for as many people as possible

Looking in more specific detail at the product issues, we believe that much of the complexity in IP product design stems from the options required to ensure it meets consumers' individual needs and there is much concern about what those needs are. We have long espoused the idea that it would be really helpful for the Government to clarify this situation by making compulsory the provision by employers of statements describing the benefits provided in the event of ill health. The provision of this information should facilitate MAS guidance giving consumers straightforward instructions on the direction which individuals, whether employed or self-employed could take and the most suitable product options for them, within the range of variants offered.

This advice should also highlight the fact that effecting private insurance cover may not be the right option for individuals on very low incomes. However, we feel that where a minimum lower earnings threshold should sit and how best to achieve a better fit with state benefits where claimants could be eligible for means tested support, requires closer consideration, and we would be happy to work with you and government on this to achieve a more co-ordinated approach. There are people earning less than £15,000 pa who would not qualify for means tested state support because their spouse is working and therefore benefit greatly from insurance, just as there are those earning more than £15,000 pa who would still qualify for means tested support.

We hope that the Simple Products initiative as it relates to income protection will restore consumer faith in the insurance sector after the regrettable abuses visited upon consumers by some PPI writers. While it should be borne in mind that MPPI did provide valuable cover for many mortgage holders, the PPI scandal was another blow to the credibility of the UK protection industry and it is vital that in this work we restore consumer trust by producing a fair and comprehensible solution that consumers can purchase with confidence.

Consultation Question 8 - Endorsement

There should be some form of badging

Consultation Questions 9 and 10 – Independent Accreditation

We feel that the accreditation process can only be considered once the scope and nature of the product and how it will be brought to market have been agreed. As such, we feel that access, distribution, service, process, marketing, and increased awareness are issues that need to be dealt with first.

Consultation Question 11 – Consumer Research

Yes

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

12 October 2012

Dear Sirs,

Sergeant Review of Simple Financial Products: Interim Report

ILAG is a trade body representing members from the Life Assurance and Wealth Management Industries.

ILAG members share and develop their practical experiences and expertise, applying this practitioner knowledge to the development of their businesses, both individually and collectively, for the benefit of members and their customers.

A list of ILAG members is at the end of this submission.

Overview

There is much to be said for the principle of simpler products. They could satisfy a straightforward need, relatively cheaply, without the expense of advice or sales commission. They could act as an entry-level product enabling customers to gain familiarity with financial products, empowering them to make further financial purchasing decisions.

We welcome the hard work that has gone into this Report. The problem has been analysed well, and there seems to be a genuine attempt to arrive at a solution fair to all parties, providing products which consumers can afford and are profitable for providers to offer.

ILAG is supportive of the initiative. In particular, the idea of the suite of products being initially limited to life cover, easy access, and 30 day savings accounts, together with further consultation on the possible addition of an income protection facility seems a very sensible way to start.

Additionally we would encourage more work to be carried out on developing the income protection variant. Although this is the most challenging product in the initial phase it has the potential to make the biggest positive impact on consumer understanding on the protection side.

ILAG would welcome more research into whether it is the product complexity, application

process or even distribution which is the strongest barrier to sales currently. In addition we believe that areas such as consumer education, promoting customer awareness and marketing are fundamental to the success of such an initiative and require more focus.

In a non-advised distribution channel, customer engagement is critical to ensure that there is sufficient demand for financial products, and once attracted the fulfilment process needs to be as optimal and efficient as possible.

Our responses to the questions are set out in the appendix to this letter. Given the nature of our membership, we have looked at the questions from a life industry (protection suite of products) viewpoint.

Yours faithfully

Lynda Maynard
Administration Team

Response to Consultation questions - Simple Products Interim Report

Chapter 5 Simple Financial Products Principles

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

Yes.

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

The principles are sensible and we have no further comments.

3: 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

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

Yes. But would it be advantageous to have more focus now on the income replacement aspect, rather than treating this as a phase 2 from the outset.

Although the income protection product is more challenging it does potentially offer the biggest opportunity to have a beneficial impact on consumers.

5: Do you have any comments on product design?

Including a suicide exclusion provides legal certainty that a claim can be submitted in the event of a suicide, for a death only policy, once the exclusion period has passed, whereas removal of the exclusion altogether actually could allow the insurer to avoid the payment based on common law principles. We would be supportive of the continued use of a limited duration suicide clause, or its removal, with a positive statement indicating when an insurer will or won't pay out on suicide.

However, as one of the key aims of this project is to produce as simple a product as possible, we question whether any exclusions should be placed on the policy. The current market has demonstrated that it is possible to mitigate this risk through the initial underwriting process and we suggest that a similar approach is followed.

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

Although there have been attempts to simplify the current product, it is our view that the proposal does not satisfy the principles outlined in the report. There may be multiple deferred periods, a combination of financial underwriting and a choice of payment periods which will result in too much choice for the customer and create complexity.

Specifically;

A single option for payment period and the deferred/waiting period would keep things simple,

and in keeping with the interim report points E3, (help compare, not tailored to individual needs) and E8 (challenge of making good choices, inertia, undermining trust).

In particular, for payment period, what frame of reference does the consumer use to decide if they will be unable to work for 1 year or 5 years? And if they wanted 5 but can only afford premiums for 1, does that option still feel worthwhile enough to purchase?

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

Yes, however the benefit up to a living wage should not impact any government means tested benefits.¹

The product design needs to be more drastic as detailed in Question 6. The definition that claims are assessed against is obviously of paramount importance, however would this be constant in products, or subject to variation by provider?

Linking certain products to an exemption around means tested benefit, whilst leaving others out, penalises certain existing policyholders. The logistics around it feel like they have the potential to be onerous, and easily misunderstood.

Is it simpler to signpost the approximate minimum salary that would make the product viable? If so, would this minimum salary significantly reduce the target market for this initiative?

Chapter 7 Endorsement

8: Do you agree with this approach?

Yes, we do think it is essential to have a simple products badge. This will identify the products to consumers and help build trust and confidence in the product range.

Having a clear brand makes identification easier – it also gives government / MAS advertising budgets something to the market; and makes these endeavours more central rather than driven by individual providers.

Chapter 8 Governance

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

We agree there should be a formal accreditation process although we question the need for a new body to be set up to do this. The Money Advice Service should play a key role in this function.

A key consideration has to be that any process is efficient for companies to obtain. And that the awarding body is respected in the wider media/public domain.

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

Please see answer to Question 9 above.

¹ Living Wage Foundation <http://www.livingwage.org.uk/>

Research Recommendations

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

We think consumer research is vitally important and needs to continue to support the development of the initiative and the ongoing evolution of the products.

Ends

ILAG Membership

Members

AXA Wealth	Met Life UK
Barclays Wealth	Metropolitan Police Friendly Society Ltd
Barnett Waddingham	MGM Advantage
Canada Life Limited	Mazars
Capita Life and Pensions Services	Oxford Actuaries and Consultants plc
Co-operative Financial Services	Pacific Life Re
Defaqto	Partnership Assurance
Deloitte LLP	Phoenix Group
Ecclesiastical Insurance Group	Pinsent Masons
Ernst & Young	PricewaterhouseCoopers
Family Investments	Reliance Mutual
Fil Life Insurance Limited	RGA
Friends Life	Royal London Group
General Reinsurance (London Branch)	Sanlam Life & Pensions
Grant Thornton	SCOR Global UK Limited.
Hannover Life Re (UK) Ltd	Skandia UK
HSBC Bank Plc	Suffolk Life
Just Retirement Limited	Sun Life Assurance Company of Canada
HCL Insurance BPO Services Limited	Swiss Re Europe SA (UK Branch)
KPMG	The Children's Mutual
Logica	Towers Watson
London & Colonial Assurance PLC	Unum
LV=	Wesleyan Assurance Society
Milliman	Zurich

Associate Members

AKG Actuaries and Consultants Ltd
Steve Dixon Consultants and Actuaries
McCurrach Financial Services
Meteor Asset Management
NMG Financial Services Consulting Limited
State Street Investor Services

Response to the sergeant Review of Simple Financial Products

10 October 2012

The fundamental flaw of the interim Sergeant Review of Simple Financial Products is its failure to address the financial risk to individuals and (especially) families created by unemployment. It is simply impossible to ignore. This risk affects people in terms of frequency far more than accident or long-term illness.

Unemployment also results in a huge increase in the debt burden of an individual, notably where a mortgage lender is prepared to offer forbearance so their customer can remain in their home. People renting do not have this luxury, where for the financially vulnerable, unemployment for 6 months or more will often mean eviction. Also, there is the often unrecognised cost of family breakdown as a consequence of the financial pressures of unemployment. This frequently drives many, mainly mothers with dependent children, into the Benefit System. In contrast, accident or sickness affecting the 'breadwinners' ability to work is a far lesser risk as it only affects a small percentage compared to unemployment.

The report should hold data to identify the number of people out of work for six months or more following losing their job compared to the number who have been unable to work for six months or more due to a serious accident or illness, during the same period. This will confirm the imperative to include unemployment as an essential risk to cover under any Income Protection product aimed at people who have less than three months income in savings.

Given the advances in medical science; where more people than ever of working age can return to gainful employment following serious illness or injury, it is hardly any wonder this has also contributed to the declining demand for traditional Income Protection Insurance. In contrast, unemployment looms large in the list of most people's concerns. The report confirms the scaling back of State Benefits is widely understood by the public. This affects both unemployment as well as disability benefits. Yet the report has only covered traditional IP insurance with a minimum 5 year term, the yawning gap of unemployment cover is ignored at the expense of the Sergeant Report's credibility.

There is little point shaping a simple Income Protection product that is almost identical to the current low penetration term IP insurance by choosing to ignore the risk of unemployment that will affect far more of the financially vulnerable.

Proposals for Income Protection

1. In addition to accident and sickness, include unemployment as a risk that can be catered for at low cost, even if it has to be limited to a maximum benefit period of one year.
2. Accept that anyone unemployed after this period (excluding the work-shy) are far more probably suffering from a physical or mental condition where a simple long-term IP product (with a 12 month deferment period) would then respond paying out, for example, until the retirement date of the

policyholder.

3. The benefit payments made for unemployment should not be deducted in full from means tested State Benefits as this is a major disincentive to private provision.

4. Accept that there are two tiers of potential buyers;

Tier 1; the most financially vulnerable with less than three months wages saved require unemployment cover.

Tier 2; those with savings well in excess of this only require a policy covering long-term disability.

A simple product does not necessarily have to be a single product from a single supplier, rather it can be a single wrapper of General Insurance sourced short-term Income Protection and Life Insurance sourced long-term disability cover. The challenge of simplifying the product application process for this wrapper should be the focus of attention for a simple Income Protection product worthy of the name. The building blocks are already there, they simply need to be cemented together and presented to the buyer in a straightforward and easily identifiable package.

Consultation Questions;

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**

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

Consultation question 3: Do you agree that firms should be limited to one issue of each Simple Product type, per brand, per channel? **NO they should not be so limited this is anti competitive**

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? **NO it is essential to include a Protection product to meet critical needs of the working population**

Consultation question 5: Do you have any comments on product design? **YES see first page above**

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

Consultation question 7: Do you think this product can be made sufficiently straightforward to qualify as a Simple Product? **YES provided it is a standard package and not allowed endless variations through providers seeking competitive advantage**

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 this should be awarded by the Money Advice Service and these products each have a separate MAS comparison table so the public can EASILY find them which will require a completely different approach than the current MAS comparison tables that are a disservice to the consumer.**

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? **YES**

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

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**

Response ends

Dennis Haggerty FCII M IDM, Marketing Manager i:protect insurance

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Our Ref:
Your Ref:
Telephone: [REDACTED]
E-mail: [REDACTED]



FAO John Yeo: Sergeant Review of Simple Financial products

By Email: simpleproducts@abi.org.uk

12th October 2012

PRIVATE & CONFIDENTIAL

Dear John

Sergeant Review of Simple Financial Products: Interim Report

I am pleased to respond to the above consultation paper on behalf of the Legal & General Group of Companies (the Group). The Legal & General Group, established in 1836, is one of the UK's leading financial services companies. As at 30 June 2012, we are responsible for investing £388 billion worldwide on behalf of investors, policyholders and shareholders. We also have over seven million customers in the UK for our life assurance, pensions, investments and general insurance plans.

Overall we support the work and analysis undertaken by the Sergeant Review (the Review). We strongly agree with the aim of expanding engagement and take-up of core financial services solutions, particularly by those groups of consumers who have traditionally not purchased or interacted with savings and protection products.

We have provided a high-level response below. This is because we have contributed to the ABI's response and did not wish to duplicate the detailed points to each specific question that they have already made. Furthermore, the only additional point we wanted to raise did not fit within a specific consultation question - that being in relation to next steps.

Paragraph 10.3 of the consultation states that "*the consultation responses and consumer research will provide the basis to prove the proposed Simple Products concept and underpin the business case to support the creation of the accreditation body. This work will inform the final report which will be published in February 2013*". While we support this, and the comments provided by the ABI, we are keen that within the time and resource available, enough additional analysis is undertaken for the Final Report to be able to set out a firm blueprint establishing what the Review believes the next phase of the Simple Products initiative should be. This is to ensure that the Review's work can be properly taken forward. For example, we would be keen to see:

- Confirmation of the simple product principles;
- A firm recommendation on the scope and ownership of the accreditation body;
- Recommendations on how best to take your work forward into a pilot stage;
- Confirmation that the FCA, FOS and Government have re-affirmed their commitment to work with the industry to take the review forward; and

- The publication of all the research undertaken to support the final report to provide additional data to support firms' individual business cases.

If such a blueprint can be delivered through the final report it would better allow firms to work in partnership with any accreditation body to look to pilot some or all of the proposed suite of simple financial products. In turn this would increase the likely long-term success of the initiative and the likelihood of firms being able to enter the simple product market in a way that benefits customers and is commercially viable.

We of course recognise that the Review cannot do this alone and we would be pleased to continue to support the work of the Review. We very much look forward to working with you in the coming months to take the interim report forward to, what we hope, will be a more advanced blueprint on how to deliver the next phase of the Simple Products initiative.

If you have any questions on our response please do not hesitate to contact me.

Yours sincerely

Ted Hart
Head of Regulatory Strategy - UK
Legal and General Group Plc

**LLOYDS
BANKING
GROUP**



**Steve Smith
Retail Competition and Regulatory
Strategy Director
Lloyds Banking Group plc**

Level 6, 155 Bishopsgate
London, EC2M 3TQ



12 October 2012

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

Dear Sir/Madam,

**Lloyds Banking Group response to the Sergeant Review of Simple Financial
Products: Interim Report**

Lloyds Banking Group welcomes the opportunity to respond to the Sergeant Review of Simple Financial Products: interim report and we look forward to engaging with HM Treasury, Consumer Groups and the wider financial services industry as the proposals are taken forward. We are also grateful to the Treasury for allowing us to contribute to the project through membership of the Working Group.

During the course of recent consultations and proposals for reform the Group has been an active and constructive partner in its discussions with both Government and regulatory bodies. In this time we have worked to address issues around consumer empowerment while continuing to develop innovative functionality to help customers better understand and gain control over their finances.

Over the course of the Independent Commission on Banking's (ICB) review we considered their concerns over switching in PCAs and proposed a landmark seven day switching service. More recently, we are working with the OFT as it completes its 2012 PCA Market Study and researching the impact new transparency measures could have in helping

customers understand the costs associated with their PCAs. We have also been strong advocates of the new automatic ISA switch service which will allow banks to transfer customers' cash ISAs instantaneously, avoiding the current paper process that can take up to two weeks. Alongside our work with policy makers we have introduced sophisticated online tools, such as our Money Manager service, that help customers budget, plan and make decisions for the future.

We see two key challenges with the proposals in the interim report. The first will be to combat low levels of engagement among the target market (as set out in the interim report) and the second will be to identify distribution methods that reach the target market and allow the products to be commercially viable.

As a major provider of financial services we welcome the approach taken in the interim report to acknowledge the existing barriers that have contributed to consumer disengagement around financial decision making. In doing so we also agree with the conclusion that the introduction of these products on a stand alone basis without measures to raise awareness and tackle inertia are unlikely to lead to the desired level of customer engagement.

At the present time the Group has commissioned independent consumer research aimed at trying to understand how the industry can encourage consumers to think about switching current accounts in advance of the new 7 day switching solution which is due to be introduced in 2013. The early findings of that research suggests that because personal finance products are often considered 'mundane' by consumers a sustained campaign with a strong message is required to 'jolt' consumers out of an existing mindset. We would be happy to share the findings of this research with the Treasury.

The Money Advice Service (MAS) will have a key role to play in signposting customers who express an interest in making a purchase and it is important, therefore, that the MAS are adequately resourced on an ongoing basis in order to play a full part. We also believe that within the framework of the Simple Financial Products Principles providers should be encouraged to apply their learnings from existing customer behaviour to design products in a way that will lead to higher take up.

The interim report identifies bank branches and provider web sites as an important distribution channel. However, as parts of the target market will not already be financial services customers, providers should be encouraged to find alternative distribution strategies that ensure these products reach their target market and allow for commercially viable distribution. This could extend to product providers partnering with micro-providers and charities.

It will be important to test different approaches to raising awareness and distribution to identify which methods work best and what lessons can be learnt. We would encourage HMT to commission a number of small scale trials before roll out of the Simple Financial Product suite begins across the industry.

Yours sincerely,

Stephen Smith,

Director, Retail Competition and Regulatory Strategy

**Lloyds Banking Group response to
Sergeant Review of Simple Financial
Products:**

Interim Report

Introduction

Lloyds Banking Group (LBG) is a leading UK-based provider of financial services, focusing on retail and commercial customers. The Retail Banking division – which operates under multiple brands including Lloyds TSB, Bank of Scotland and Halifax – offers customers a full range of current accounts, savings and investments, personal loans, credit cards and mortgages. Our Savings and Investment business is the largest in the UK with over £200bn in balances.

Our insurance business sells products under four leading brands: Scottish Widows, Halifax, Lloyds TSB and Bank of Scotland. They are distributed through our community banks, independent financial advisors and direct sales teams. With six million life, pensions and investments customers, we are one of the most trusted providers in the UK.

RESPONSE TO QUESTIONS

Q. 1: DO YOU AGREE THAT THERE SHOULD BE A SET OF HIGH-LEVEL PRINCIPLES?

We strongly support the principles set out in the interim report and believe they will serve as an important guide to providers as they develop their products going forward.

Q 2: DO YOU HAVE ANY COMMENTS ON THE PROPOSED PRINCIPLES?

The principles set out in the interim report accurately capture what the product suite is intended to achieve. We believe that providers should be given as much flexibility as possible to interpret these principles as over-prescription could limit competition between providers.

Q 3: DO YOU AGREE THAT FIRMS SHOULD BE LIMITED TO ONE ISSUE OF EACH SIMPLE PRODUCT TYPE, PER BRAND, PER CHANNEL?

We agree that each firm should be limited to one issue of each Simple Product, per brand, per channel. This approach would be in keeping with the desire not to ensure an 'over-supply' of products on the market. It is important, however, that providers are able to continually assess the products they offer to determine whether they are reaching their target market and whether they are attractive to customers. Providers should be encouraged to make amendments that are consistent with the principles set out in the interim report.

Q 4: DO YOU AGREE WITH THIS INITIAL SUITE OF SIMPLE PRODUCTS?

We agree with the initial suite of simple products. We would recommend that the suite of products is expanded only after a post implementation review has determined that the initial suite has reached the defined target market.

Q 5: DO YOU HAVE ANY COMMENTS ON PRODUCT DESIGN?

Our overarching comment is that within the framework set by the Simple Financial Products principles providers should be given some discretion to design products in a manner that will lead to high levels of take up and engagement.

We believe annual statements should be a standard requirement for all simple protection products. Annual statements will be an important tool in driving transparency and understanding. They will also help improve the quality of the engagement between the provider and the customer – providers will be able to use the statements to remind customers what they have and prompt them to check whether their level of protection is appropriate and relevant.

On the design of the life cover product specifically we believe that life cover is already a relatively ‘simple’ product and with that in mind we would urge caution and consideration before stripping back the full range of provisions currently on offer. The focus should instead be on those provisions which are poorly understood by consumers - Guaranteed Insurability Options (as defined in Chapter 6) would be an obvious candidate for removal but the removal of terminal illness, waiver of premium or terminal illness benefit could diminish the support provided to consumers.

We would also encourage greater simplification and improvements in the claims process to ensure customers get the money owed to them as quickly as possible. The idea of moving to a ‘nomination basis’ which short cuts the probate process is one which we support and believe the simple product review could help promote.

With regard to savings products market experience suggests that customers who currently save chose products with a bonus over products with a flat rate. Experience tells us that customers favour these products because they give a guaranteed rate of interest for a year which gets them engaged and prepared to shop around when that period ends. It will be important to ensure that the movement to a flat rate – for reasons of simplicity – does not have an adverse effect on customer engagement.

Q 6: DO YOU HAVE ANY COMMENTS ON THE PROPOSED DESIGN FOR A SIMPLE INCOME REPLACEMENT PRODUCT?

The Group would support the introduction of a Simple Income Protection Product over time and believe our Essential Earnings Cover product provides a useful template for what can be achieved in this area.

On design specifically we do have some concerns over a potential movement towards shorter pay out periods as customers may expect the product to protect them for an extended period. We would propose restricting claim periods to 5 years.

Q7. DO YOU THINK THIS PRODUCT CAN BE MADE SUFFICIENTLY STRAIGHTFORWARD TO QUALIFY AS A SIMPLE PRODUCT?

We would encourage both the Treasury and regulators to consider the challenges that could potentially arise from distributing such a product on a non-advised basis. The current requirements under both ICOBS and the 2011 PPI Order mean that, for short term income protection products at least, customers currently undergo a lengthy sales process when the product is sold in branch or via telephony giving the impression to the customer that he/she has received advice.

The regulatory existing regime could, therefore, pose challenges in making the Simple Income Protection Product commercially viable through traditional distribution channels.

Q8. DO YOU AGREE WITH THIS APPROACH (THAT A SIMPLE PRODUCTS BADGE SHOULD BE CREATED)?

We endorse the proposal to create a simple products badge. The badge should try and convey that these products reflect the Simple Financial Products Principles in that that they are clear, straightforward and transparent. The badge should also be generic, easily identifiable and distinct from existing from existing provider brands.

Q9. DO YOU AGREE THERE SHOULD BE A FORMAL INDEPENDENT ACCREDITATION PROCESS?

We agree that a formal accreditation process will be important lend credibility to these products in the eyes of the consumer. It will be important to ensure that the process is rigorous but also that it does not impose burdens which act as a disincentive to providers to participate. Again the Money Advice Service seems the most appropriate body to take on this new responsibility.

Q10. DO YOU AGREE WITH THE PROPOSED APPROACH TO ACCREDITATION?

The proposed list of functions for the accreditation body seem correct. As the interim report outlines the accreditation body will have an important role to “monitor the overall effectiveness of the initiative, as well as managing the accreditation process and ensuring that Simple Product standards continue to be met”.

It will be important to define the role that the accreditation body plays within the existing regulatory framework. Equally it will be critical for the Financial Conduct Authority to

recognise that Simple Products are designed for a particular target market and they should not be considered the default standard for other products on the market.

Q11. DO YOU AGREE THAT ON-GOING AND SYSTEMATIC CONSUMER RESEARCH IS REQUIRED TO SUPPORT THE SIMPLE PRODUCTS INITIATIVE?

The Group fully endorses the intention to continue with ongoing customer research to better understand the target market and the best way to engage them. As discussed earlier, the target market is a group that the industry has struggled to engage in the past and with that in mind consideration should be given to the role the industry could play in signposting these products.

In this context, the industry could work with consumer groups and employers' organisations to provide customers with a series of simple questions that they can ask their HR manager to identify the occupational benefits that are in place for them plus their employers HR policy in relation to long term sickness and disability.



Simple Products Interim Report
Association of British Insurers
[By email to: simpleproducts@abi.org.uk]

22 August 2012

Dear Sirs

Sergeant Review of Simple Products

In March 2011, LITRG responded to the consultation about Simple Financial Products stressing that it is important to consider tax rules when designing any financial products¹. HM Treasury has since drawn our attention to the publication of the independent review's interim report and we have copied this letter to them.

We do not have detailed comments on the proposals at this stage, but we wish to emphasise two points.

1. Tax considerations

The review does not give much consideration to tax, as the published interim report states:

"The tax treatment of each of the accounts has not been considered at this stage, although the working assumption is that each of the products would be capable of being used within an ISA wrapper." ²

LITRG would wish to be involved when tax aspects are being considered. We think that tax is a key factor and should be considered early in the design of these products.

¹ See <http://www.litrg.org.uk/submissions/2011/Simple-financial-products>

² See para 6.8 http://www.hm-treasury.gov.uk/d/sergeant_review_simple_financial_products_interim_report.pdf

2. Restoring trust

The interim report emphasises the need to restore trust in the system. Some savers' trust has been damaged as a result of the Government making changes to savings products such as pensions. One example would be the 2006 pensions changes which increased the minimum age at which one can access private pension savings from 50 to 55.

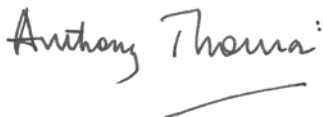
Once the rules are set, for the Government to change them with any retroactive effect would be damaging. Indeed there should be a commitment to leaving the terms of the products untouched; in so doing, people will know that what they sign up to at the outset will subsist for the period of their investment.

We are concerned that there might not be such an assurance for the proposed simple products, given that for example the draft general conditions for a simple life cover policy (Appendix E to the interim report) includes the following wording:

"We may make changes to the policy terms and conditions that we reasonably consider appropriate due to a change in any applicable legislation, regulation or taxation. If this happens we will notify you in writing in advance of the change."

If you would like to meet to discuss our concerns then please let us know.

Yours sincerely



Anthony Thomas

Chairman

Low Incomes Tax Reform Group

cc Alice Mosby, Policy Advisor - Financial Capability, HM Treasury.

About LITRG

The Low Incomes Tax Reform Group (LITRG) is an initiative of the Chartered Institute of Taxation (CIOT) to give a voice to the unrepresented. Since 1998 LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those on low incomes.

The CIOT is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT's primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it - taxpayers, advisers and the authorities.



Consultation response

Sergeant Review of Simple Financial Products: Interim Report

from the Money Advice Service

October 2012

About us

The Money Advice Service is a new nationwide service that provides free, unbiased advice to help everyone make the most of their money. We do this by offering personalised and practical money advice online, over the phone and face-to-face.

We were set up by the Financial Services Act 2010 to deliver the 'public awareness' objective that was previously a responsibility of the Financial Services Authority, but with an expanded remit to deliver advice and help people manage money better.

After a transition phase as the Consumer Financial Education Body, we launched as the Money Advice Service on 4 April 2011.

Introduction

The Money Advice Service has been an integral part of the Simple Products initiative through participation in the steering group, all working groups and leading the 'Taking products to market' working group.

Within the remit of our service of helping people manage their money well, it is integral to address the need of simplification in a crowded marketplace.

Simplicity builds consumer trust. Increased consumer trust will lead to increased consumer confidence when making financial decisions and buying products that meet people's needs.

We recognise the significant challenges that arise from this task and welcome the renewed effort of the Sergeant Review to tackle them.

We welcome the opportunity to respond to this consultation and are happy for this response to be published.

Response

We have answered all questions in the consultation with the exception of question 7.

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

Yes. It is important that the Simple Products initiative is guided by a set of principles agreed by industry, government, regulators and consumer organisations.

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

The principles are designed to be the cornerstone of the new initiative but may be built upon by the independent accreditation board. These are necessary to provide a basis to measure the initiative against.

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

Yes. This will stop “gaming” by the industry (plummeting the rate on one issue and issuing a new product) which will limit consumer detriment. It will also make simple products easier to understand from a consumer point of view if there are not multiple issues. Multiple issues will also decrease comparability across other provider’s simple products.

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

Yes. The initial suite of products is about reducing a consumer’s personal financial risk. These products can help consumers build resilience against financial shocks.

5: Do you have any comments on product design?

From a consumer point of view, it is important that the process for the engaging and buying the product is straightforward as well as the features of the proposed products themselves.

It is important that behavioural economics principles such as defaults (i.e. automatically setting up a standing order when opening a simple savings account) are built into product design as it will make it easier for consumers to engage with using the product.

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

This is an important product to enable a consumer to limit the detriment caused by the financial shock that may occur when one is too sick to work. We fully support the further work needed to develop a product that works in simple product terms and is profitable for the industry.

8: Do you agree with this approach?

Yes, the badge creates a mental shortcut for a consumer which could assist them to easily recognise simple products. In a crowded financial market place this is an important differentiator from other products and could help engender consumer trust.

In order to be successful, it will be important that all stakeholders work together to raise awareness amongst consumers of the badge.

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

Yes. The accreditation process is one of the necessary ingredients to make the initiative successful as it is a long term change program.

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

Yes. We recognise the challenge of setting up a new accreditation process with defined remit and scope. The consumer research will be able to inform the approach and highlight the consumer appetite for simple products and an accompanying badge.

If the accreditation function is agreed and supported by the consumer research proposed to inform the recommendations for the Sergeant Review final report, a proposal will be put forward to the Board of the Money Advice Service to provide administrative support to the accreditation function.

This approach will need agreement from the agencies that the Money Advice service is accountable to including FSA/FCA, HM Treasury and OFT. We would also want to ensure that the financial services industry is fully supportive of our proposed role.

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

Yes we agree that on-going consumer research is essential. It is important to have measurable outcomes for the initiative, progress towards which the consumer research can test. The Simple Products initiative is part of a long term change program that will take time to embed and also involves the creation of the Financial Conduct Authority (FCA) to restore consumer trust with robust consumer protection regulation and a drive to improve the financial capability of the UK population being led by the Money Advice Service.

Jackie Spencer, Proposition Manager

Published: October 2012

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Moneysworth Ltd Response To Sergeant Review Of Simple Products: Interim Report

11th October 2012

We have set out below our responses to the eleven consultation questions set out in the Interim Report. We have restricted our comments to personal protection products (life cover and income protection) as these are the products which relate to our clients.

Moneysworth Ltd offer a specialist protection products service aimed at servicing the needs of those who have pre-existing health conditions (such as diabetes, heart conditions, mental health conditions etc) and our responses to the Interim Report are written primarily from 'their' point of view. We would also point out that this group of consumers now represents a significant and growing proportion of the total population.

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

Yes

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

- 1) The report has much to say about the positive effects that result from taking personal responsibility (ie arranging basic insurance). We are disappointed that the report has nothing to say about the negative effects for someone who struggles to obtain protection insurance, nor about how, looking forwards, simple products might be used to help such clients.
- 2) If the intention behind simple products is to be transparent and clear and for product providers to communicate effectively, then a warning should be included in the essential product features that some applicants on health grounds might be declined or have to pay higher premiums.
- 3) Our experience teaches us that for many consumers, being declined with one company would not necessarily mean that they would be declined with all other companies. However current practise with most product providers is to do nothing further to help or signpost such customers onwards for more specialist assistance. There is an opportunity here for the Simple products review to demonstrate that thought and consideration has gone into the particular needs of those with health conditions by offering a signposting system that would help such consumers. Moneysworth Ltd would be interested in discussing this aspect further.
- 4) 'Clear pricing' and 'clear methods of informing the consumer about the current prices' sound like fair principles and should be applied across the board.

However in the life insurance market as it currently stands, millions of consumers with pre-existing health conditions face real difficulty in obtaining fair and clear pre sales price information, making it impossible for most such consumers to make realistic price comparisons. This is because the consumer information that is generally available (especially via the internet) is based upon 'standard' prices only and consequently this information is seriously misleading for millions of consumers. For example, assuming their application is accepted, someone with diabetes could be placed into any of 12-16 different price bands, depending on the individual life company. Nor are the banding levels uniform between the different insurers, so that the applicant could be placed in significantly different banding levels by different insurers. Specialist comparable price information for consumers with health conditions is available in the market currently for those who are lucky enough to find it but generally most consumers remain currently unaware that such a service is available. There is a clear need for better consumer education. As a specialist, who already offer a price comparison service in this area Moneysworth Ltd would be interested in developing this important work further, exploring how such a service might dovetail with simple products with the aim of making a fairer comparison service more widely available to all consumers, not just those who manage to obtain 'standard' terms.

Question 3 – Do you agree that firms should be limited to one issue of each simple type product type, per brand, per channel?

For each product type we would suggest that each product provider is limited to only one product across all channels, otherwise it is not simple.

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

Yes

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

- 1) Overall we are disappointed with the ambition of the product design for simple life insurance. It is not clear that the product as proposed in any way represents any positive change or new thinking compared to the similar products that are already available in the market place and in this sense it looks like a lost opportunity.
- 2) Especially we feel that the simple products review presents an opportunity to develop a life insurance solution for more of those who are currently unable to obtain any cover under the current system. We appreciate that certain

health conditions do present insurance companies with levels of risk with which they feel uncomfortable, or where they feel that the true cost of the risk for the consumer might be prohibitive. We also appreciate in general terms the risk of attracting too much high risk business (ie moral hazard), if underwriting tolerance limits are relaxed. However regardless of how and by whom simple products are finally accredited, simple products are essentially a government sponsored programme with the aim of encouraging greater personal financial responsibility. As they currently stand the proposals have little if anything to offer those with significant health disadvantages. Instead they give the appearance of serving the status quo and of simply repackaging what already exists. Many will be left scratching their heads and wondering what all the fuss is about. It is worth remembering that what we are discussing here is the protection of families, via a life insurance product, from the financial catastrophe that might follow the losing of a/the key and often irreplaceable source of income for that family unit. A child whose parent suffers from a condition which is currently virtually uninsurable such as inherited long QT syndrome stands not only the increased risk of the sudden premature loss of a parent, but a future shaped by the lack of choices due to the unavailability of a financial safety net today. This seems the opposite of 'big society'. Rather than wait for discriminatory test cases that may well follow we think the simple products review provides a real opportunity to look at this issue now and to examine if more can be done, if necessary with the assistance of government. Failure to address the issue will send a negative message about simple products to many consumers. On the other hand some positive action is likely to add significantly to the credibility of the simple products initiative as a whole.

- 3) Notwithstanding the above issue the proposed simple product actually looks inferior to what is currently available in other ways and there is therefore a significant risk that the product might backfire, especially concerning the issue of terminal illness benefit. The removal of a benefit that is already currently 'free' within the market will invite comparisons between the simple and non simple product. Even if simple products are sold at a cheaper premium than their non simple equivalents the lack of terminal illness benefit will create controversy and will in time make the simple product toxic. We suggest a complete rethink on this aspect and probably the safest route would be to copy the non simple equivalent product on terminal illness.

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

Income Protection (IP) is an insurance product that currently is simply unavailable for millions of people with significant health conditions. For example most product providers will automatically decline an application for income protection from anyone with diabetes (type 1 and type 2) or who has suffered from heart

disease. Of course in all other respects of day to day living most of these consumers are just like everyone else, they work, they have mortgages and many of them have families who depend upon them financially. The interim report states that the target group for simple protection products is around 20 million people but it does not state whether this figure is net or gross of the millions who are currently unable to obtain individual income protection cover due to their health. We find it concerning that the interim report makes no mention of the numbers involved nor of the fact that in reality millions of people are currently unable to purchase this type of insurance cover at all. Our comments therefore are similar to those we have made in respect of previous responses provided about simple life insurance. However in respect of income protection the scale of the problem is multiplied considerably and is in need of serious and urgent review as the market simply excludes far too many people from obtaining any cover.

Question 7- Do you think this product can be made sufficiently straightforward to qualify as a simple product?

Valuable and important as this type of insurance is, it is difficult to see how income protection insurance in its current form can be made into a simple product. Any IP product which did manage to qualify as a simple product would need to be radically different to the product that exists in the current market.

Question 8 – Do you agree that a Simple Products Badge should be created to signpost Simple Products to the consumer in a complex marketplace?

A simple products badge is probably inevitable and in theory makes sense. However in the current market place life insurance is fairly simple and straightforward anyway and it is not clear what the simple version is offering the consumer that is not already available. Indeed if anything under current proposals there is a risk of making the simple products brand toxic via the omission of terminal illness benefit and possibly by excluding people from cover in the first place due to their health.

For Income Protection much product design work needs to be done before the product could be labelled simple.

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

Yes but careful attention should be given to the risks associated with wrongful accreditation. Accreditation implies official approval and the message that the

products are good and safe for consumers. Getting it wrong will discredit those involved.

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

No we do not agree. What is absent from the suggestions as to how this might work is any involvement from actual consumers. But to be frank it is difficult to read the report as a whole and conclude that the consumer has been meaningfully involved in the process so far. This is particularly clear in the case of the issues relating to consumers with pre-existing health conditions who were given no place or representation on the committee, which implies that their particular needs are not considered to be relevant.

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

Yes. However once again we are left wondering why systematic consumer research was not a starting point for the Simple Products initiative. If there is a real need for the Simple products initiative in the first place then this suggests that the products in the market currently are not best meeting (some) consumers needs. Why then would you not begin the review process by first asking consumers what they thought they needed and seeking their assessment of the products currently on offer before starting to develop new products that were more simple?

Nationwide Building Society Response to Interim Report of the Sergeant Review of Simple Financial Products

The drivers of the Simple Financial Products initiative – of building consumer trust and encouraging engagement – are key features in how Nationwide Building Society already develops products. This derives from our mutual ownership which places our members at the heart of our decision-making.

Nationwide supports the intentions of the Sergeant Review in seeking to create more informed, empowered consumers. We agree that it is important for consumers to be able to easily understand and compare financial products. We want to see a widening of financial awareness and capability towards development of a savings culture.

However, the proposed suite of Simple Products as it currently stands is unlikely to cut through or encourage new savers.

Previous initiatives of this type provide a valuable lesson and our experience of earlier initiatives, such as the CAT standards, has not been positive. The Sergeant Review has acknowledged the limits of previous simple product initiatives and the need for further consumer research, but we feel these lessons could be better recognised.

Furthermore, there is a continuing risk that 'simple' must not be automatically equated with 'good' products and 'complex' with 'bad' products. Product innovation and a certain degree of complexity are required to meet the diverse needs of consumers.

The Sergeant Review would be better placed to build-on the principles of Simple Financial Products rather than specific products in themselves. Measures taken forwards by the group and subsequently by government and the sector should focus on the principles of simplicity, transparency and financial capability.

i. Simplicity

Opportunity exists to make some basic simplifications to existing product areas, namely ISAs. An equalisation of the cash and stocks and shares ISA limits would provide consumers with a simplified, fairer offer, building on the popular ISA blueprint. The current arrangements over-complicate the existing ISA proposition, especially for groups such as first time buyers and older people who can benefit from the simplicity and flexibility of cash ISA holdings. Equalising the limits would make this route to saving more simple, fair and attractive.

The ability for consumers to transfer Child Trust Funds to Junior ISAs would also provide a simplification to the ISA market, allowing a greater number of consumers access to the latest ISA products.

ii. Transparency

The Sergeant Review is right to recognise the importance of transparency in financial services product markets. Nationwide is a champion of transparency in the retail savings market as is evident through our Savings Promises¹ (designed to help keep our members fully informed to make the most of their savings) and Savings Watch² (a service to all our deposit account holders which personally updates customers each time we change a savings rate).

Through these initiatives, we are focused on fair bonus revert rates by being absolutely clear with our members about when and to what level their rate changes to – both when taking out the product and when any change takes place.

We feel that Nationwide's approach in this area is market-leading and would urge others to follow Nationwide's benchmark lead in offering fair bonus revert rates and practices.

iii. Information and financial capability

We believe that improving individuals' financial capability remains the most important factor when addressing consumer empowerment – increasing their awareness that certain financial products will provide them with significant benefit, enhancing their understanding of the types

¹ <http://www.nationwide.co.uk/savings/savingspromises/default.htm>

² <http://www.nationwide.co.uk/savings/savingswatch/default.htm>

of products available and increasing the likelihood that they will make the right financial decisions for their circumstances.

Nationwide is very active in supporting improvements through Nationwide Education and our support for National Numeracy, an independent charity that focuses on adults and children with low levels of numeracy.

Financial capability should remain a central public policy goal, driven by strong industry-government partnership. We are keen to work with the Government, the regulator and other agencies to continue to do more in this area.

We appreciate that there is more work to be done as part of the Sergeant Review. We will continue to support the next phase of the initiative. However, emphasis should not be on products, but on targeted changes to existing product markets, such as ISAs. By adopting this approach the Review would overcome difficulties associated with defining the market for Simple Products and bring about a more direct, and immediate, fair and simplified offer to the consumer.

Background to this response:

Nationwide's response to the Interim Report is focused on the savings product proposals. As a life and critical illness product distributor we support action that helps to raise consumer awareness of the value and importance of financial protection more broadly. With help from our third party product providers (Legal & General and Aviva) we are committed to an ongoing programme of continuous improvement to assist us in the sale and distribution of the products we offer.

October 2012