

**Sergeant Review *of*  
Simple Financial Products:**  
A summary of consultation  
responses

January 2013

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Any queries regarding this publication should be sent to us at: [simpleproducts@abi.org.uk](mailto:simpleproducts@abi.org.uk).

ISBN 978-1-909096-59-2  
PU1437

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# 1 Introduction

## Purpose of the document

- 1.1 This document summarises responses submitted to the July 2012 consultation, *Sergeant Review of Simple Financial Products: Interim report*. It is not intended to set out a Government response to the consultation submissions.

## Background

- 1.2 The Government published *Simple financial products: a consultation* on 14 December 2010, which closed 25 March 2011. The consultation set out the Government's initial suggestions for how a new range of simple products could be developed and asked the industry to lead in taking this work forward.
- 1.3 Responses to this consultation suggested that the initial focus should be on simple deposit savings and protection insurance products.
- 1.4 The Government announced in October 2011 the creation of an independent simple financial products steering group chaired by Carol Sergeant. The group was tasked with devising a suite of simple financial products that will help consumers navigate the financial services market. The aim is to help increase the number of new participants in financial markets by providing straightforward, easy to understand products that are clearly identifiable as meeting "simple product" standards.

## Responses to the consultation

- 1.5 43 responses to the consultation were received from a wide range of organisations and individuals (see Annex A for details).
- 1.6 The next chapter provides a summary of responses to each consultation question. The summary seeks to capture overall themes and the relative weight of different opinions and therefore does not capture every detail and nuance. Individual responses will be published separately, except where respondents have asked for these to be kept confidential.
- 1.7 The Steering Group is considering these responses carefully and will be conducting consumer research.

## 2 Summary of responses

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

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

- 2.2 There was a very strong consensus that the initiative should be under-pinned by an established set of principles, with thirty responses to this question in agreement.

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

- 2.3 The large majority of respondents agreed with the set of principles proposed by the Review. Some responses agreed in general to the principles but had comments on the strength or suitability of specific principles.
- 2.4 Of these, three responses suggested that the stipulation for a straightforward and clear purchasing process (Principle 5) should be further explained, with standardisation of application forms and a plain English review of all documentation being offered as an option to achieve this.
- 2.5 A further three responses (one each from industry, charity sector and a government body) expressed concern that the issue of changes to terms during the life of the product (Principle 8) was not adequately addressed, recommending that more consideration of the types of changes deemed acceptable is required, and whether conditions should be attached to a firm's ability to change the terms and conditions of a product and whether this should be prohibited entirely.
- 2.6 One response questioned whether, due to their business model, credit unions would be able to satisfy the criteria of the principles and that some modifications may be required to allow these firms to offer simple products. In particular it was noted that the requirements under Principle 6 were not inclusive enough to allow credit unions offering a dividend to offer branded Simple Products.

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

- 2.7 There was broad consensus with this proposition, with 30 respondents in agreement.

- 2.8 Those responses that disagreed did so due to concerns that different pricing per channel would potentially add to the complexity of the initiative as well as disadvantage certain groups of customers, i.e. online v branch access.
- 2.9 Several industry responses highlighted the need to acknowledge that products will occasionally have to be withdrawn or updated in response to regulatory or legislative developments, and that this shouldn't be prohibited within the initiative.
- 2.10 Five responses highlighted potential difficulty with "brand", commenting that products are often offered in partnership with other firms and would therefore carry both partners' brands. One response suggested that firms should be restricted to one Simple Product per Group to avoid market complexity, while four responses stated that the ability to offer brands in partnership would be central to the commercial viability of the products.

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

- 2.11 The Review recommended that the initial suite of simple products should include; an Easy Access Savings Account, a 30 day Notice Account, and a life cover product. Despite the fact that the income replacement product was addressed elsewhere in the consultation responses, thirteen responses commented on this product in this section.
- 2.12 There were ten negative responses to the suggested suite, with a breakdown of five from industry participants, two from trade bodies, two from research or consultation companies and one from an individual respondent.
- 2.13 Of these responses, nine suggested that an Income Replacement product should be included as an immediate priority, and one that an investment product that provides access to stock market investment should be included.
- 2.14 A further four responses agreed with the initial suite but recommended that an income replacement product should be included within the suite as soon as possible.
- 2.15 Further suggestions on expansion of the suite following the initial launch include GI (2), basic bank account (1), a regular savings account (1), a current savings account (1) a Credit Union savings product (1), a fixed term account (1), an investment product (1).

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

### Savings products

- 2.16 15 responses (seven industry, three trade bodies, three charities, a research company, and one consultancy) discussed the design of the savings products in-depth.

**2.17** Key issues raised included:

- **Introductory / tiered rates** – Industry responses raised concerns over the commercial viability or consumer attractiveness of the products in the absence of these rates. Non-industry responses tended to welcome their exclusion as it would reduce complexity.
- **Maximum balances** – Concerns were raised that the inclusion of a maximum balance would add to complexity. The need for this feature was also questioned given the identified target market of the initiative.
- **Existing rather than new products** – there was some industry preference for a focus on the badging of existing products that meet established criteria rather than creating a new suite of products that would potentially add a further layer of complexity to the market.
- **Method of deposit** – responses from the charity sector in particular emphasised the need for providers to be mindful of the needs of different groups (such as people with mobility difficulties, sensory disabilities or a learning disability for instance, or people in rural areas) to ensure that there are no undue barriers to using a product.
- **Notice period** – it was suggested that in order to enable providers to offer better rates on the notice products, consideration should be given to a longer notice period (for example 90 days) and to not permitting early access.
- **Product range** – concerns (including from industry) were raised that the two savings products are too similar, particularly in a low-interest environment where the return on a 30 day Notice Savings Account may be similar to the Easy Access Savings Account.
- **Credit Unions potentially being excluded from offering** – one trade body response noted that many credit unions will be excluded from seeking accreditation to offer the savings products because the vast majority of credit unions pay a dividend on savings, rather than fixed interest, and a requirement for members to buy a share to join the credit union, and potentially an entrance fee.

**Life cover**

- 2.18** 17 (ten industry, three trade bodies, two consultancies, one individual and one Government body) discussed the design of the life cover product in-depth.

**2.19** Key issues raised included:

- **Quality of offering** – several industry and trade body responses identified the potential that the initiative could create a product that was inferior to life cover products already on the market by excluding additional benefits such as terminal illness cover and waiver of premium. There was concern that this could jeopardise the effectiveness of the Simple Products brand.
- **Application process** – these responses stated a belief that much of the complexity associated with life cover products exists in the application process and that simplifying or standardising underwriting questions could significantly improve this process.
- **Claims process** – several responses recommended that the design should include a process of paying the sum assured to chosen dependants without this payment being held up by probate or subject to inheritance tax. These responses suggested that this could be achieved by writing the policy using a simple trust and applicants being asked to list their chosen dependents in the application.

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

**2.20** 22 responses commented on the design of the Simple Income Replacement Product, with a wide array of opinions expressed. There was very little consensus on either the purpose or design of the product among the responses and few common themes emerged. These responses included comments that the product should:

- Be simplified further as it is still too complex
- Address unemployment
- Focus on short-term protection
- Be distributed through the workplace
- Include an underlying guarantee to refund all premiums paid should the policyholder become eligible for means-tested benefits because of sickness or disability



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

- 2.21** Responses to Question 7 were similarly varied. 17 responses agreed that the product could be simplified, while 17 responses either didn't answer the question or provide a clear opinion. Nine disagreed with the statement.
- 2.22** The majority of positive responses did not specifically indicate how the product might be simplified, with those that did largely identifying similar areas to those contained in the Report, namely –providing certainty around means-tested state benefits, providing more information to consumers about their existing levels of cover from current providers, generating a better understanding of employee benefits, and improving product literature and language.
- 2.23** Three responses suggested the establishment of a minimum level of income below which the product would be labelled unsuitable. This could act as a potential solution to potential mis-selling related to the forfeiture of means-tested state benefits.
- 2.24** Similar to question 6, several responses suggested that the product should concentrate on a short-term rather than a long-term income replacement product.

## **Question 8: Do you agree with this approach (that a Simple Products badge should be created)?**

- 2.25** The responses indicated strong agreement for the creation of a Simple Products badge, with 33 positive responses and 9 respondents not answering the question or offering a clear opinion.
- 2.26** One response explicitly disagreed with the proposal, stating that a badge would be unnecessary given the FCA's publicly stated intention to become more pro-active in product design.
- 2.27** Several responses stressed the need for the badge to be informed by consumer research to best determine the characteristics and the values that the badge should represent. Suggested characteristics included reliability, transparency and ease of understanding.
- 2.28** Four responses (two industry and two trade bodies) noted the role that the Money Advice Service could play in promoting and signposting the badge.

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

- 2.29** Of the 43 responses, 23 respondents agreed with the question “Do you agree that there should be a formal accreditation process?” while 9 respondents did not answer the questions or offer a clear opinion. Four responses disagreed with the question.
- 2.30** While agreement was strong, concerns were raised that the process should not be cumbersome, over-bureaucratic or costly. One respondent was wary that excess cost could exclude smaller providers from being in the initiative.
- 2.31** The negative responses concerned the role of the regulator - two (one industry, one consultancy) believed that the FCA should accredit the products, one that the FCA should provide certainty that the products would not require the same advice process as other products, and one that there should be no need for product accreditation given the regulator’s stated intention to be more pro-active in product design.

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

- 2.32** 23 respondents agreed with proposed approach, with seven respondents disagreeing and 12 respondents not answering the question or offering a clear opinion. There was, however, a degree of ambiguity about what the respondents were agreeing to. The greatest concern was creating a “new body” which may add unnecessary risk and costs to products and also confuse consumers. 19 responses made direct reference to the Money Advice Service and their potential role in accreditation.
- 2.33** Arguments against establishing a new accreditation body were that it would be expensive and contribute to the cost of the process, could cloud the regulatory landscape, would lack existing goodwill or trust to leverage, and be contrary to the Government’s stated policy of streamlining public bodies.
- 2.34** Strongest among these was the regulatory question, particularly from industry respondents. These responses stated that in the absence of the regulator directly accrediting the products there was a need to confirm the regulatory approach it would take, particularly regarding the sales process.
- 2.35** These responses suggested that unless it was recognised that the products are designed for a particular target market and may not provide consumers with the best possible outcome from products available on whole market, the risk of mis-selling would seriously undermine the initiative.

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

**2.36** There was general consensus that both initial and on-going research would be required to support the initiative, with most responses to this question describing suggestions for an initial phase of required research.

**2.37** These responses included:

- **Demand** - the importance of identifying customer need for the products from the outset as a way of estimating future demand. There was a theme among industry responses in particular that without associated efforts to increase customer awareness and demand, the supply of new products would have little effect in addressing the savings and protection gaps.
- **Likely buying behaviour** – including channel preference
- **Language** – the need to develop and test straightforward language including product names, product literature and terms and conditions
- **Simplicity dividend** – a greater understanding of the effect that making products and literature simpler will actually have
- **Suitability of existing products** - the need to determine if it would be more appropriate to signpost customers to existing products that satisfy the principles and criteria

**2.38** Suggestions for on-going research included the monitoring of basic service levels and an annual market audit with published results of total and average balances, levels of coverage, switching rates, etc.

## Annex A

## List of respondents

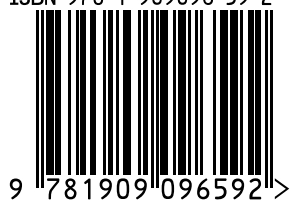
ABI	Trade body
ABCU Limited	Trade body
Age UK	Charity
AIFA	Trade body
Avelo & Life Research	Research company
Aviva	Industry
Barclays	Industry
BBA	Trade body
BSA	Trade body
Citizens Advice Bureau	Charity
Consumer Credit Counselling Service	Charity
Darlington Building Society	Industry
Debt Advice Foundation	Charity
Defaqto	Research company
Steve Devine	Individual
Norman Digance	Individual
Ea Consulting Group	Consultancy
Financial Services Consumer Panel	Government body
Gen Re	Industry
Ruth Gilbert	Individual
GRID – Group Risk Development	Trade body
HSBC	Industry
Income Protection Taskforce	Trade body
Investment and Life Assurance Group	Trade body
i:protect	Industry
L & G	Industry
Lloyds Banking Group	Industry
Low Incomes Tax Reform Group (part of CIOT)	Trade body
MAS	Government body
Moneysworth Ltd	Industry
Nationwide Building Society	Industry
Pacific Life Re	Industry
Personal Group	Industry
RBS	Industry
SavingsChampion	Industry
SAMI Consulting	Consultancy
Smaller Businesses Practitioner Panel	Government body
Swiss Re	Industry
TD Direct Investing	Industry
Total Systems plc	Consultancy
Unum	Industry
UK Cards Association	Trade body
Virgin Money	Industry

<b>Total responses</b>	<b>43</b>
Industry	19
Trade bodies	10
Consultancies / research companies	5
Charities	4
Individuals	3
Government bodies	3





ISBN 978-1-909096-59-2



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