

Sergeant Review of Simple Financial Products:

Interim report

Response from Association of British Credit Unions Ltd

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Introduction

We appreciate the opportunity to provide a response to this interim report. The Association of British Credit Unions Limited (ABCUL) is the main trade association for credit unions in England, Scotland and Wales representing around 65% of British credit unions who in turn serve around 80% of credit union members.

At 30 March 2012, credit unions in Great Britain were providing financial services to 887,965 adult members and held more than £762 million in deposits with more than £604 million out on loan to members. An additional 121,922 young people were saving with credit unions.¹

There are currently 399 credit unions operating in England, Scotland and Wales, varying in size from under 200 members to over 30,000 members.

Credit unions are not-for-profit, financial co-operatives owned and controlled by their members providing safe savings and affordable loan facilities. A small number of credit unions offer more sophisticated products such as current accounts, ISAs and mortgages. Because they are co-operatives, new credit union members are required to buy a share in the credit union on joining and some credit unions also charge an entrance fee and / or an annual membership fee.

Credit unions operate within a very simple business model. The vast majority of the money which they lend out comes from members' savings and they are limited in where they can invest their money.

Legislative reform has recently allowed some credit unions to offer interest on savings accounts, but the vast majority of credit union accounts continue to pay a return based on a share of profits at the end of the year – the dividend. Some larger credit unions are permitted to pay varying dividends and/or to pay a dividend more than once a year. Many credit unions offer accounts for specific reasons, such as saving for Christmas, and an increasing number of credit unions offer budgeting accounts, which help members to manage their finances and pass on benefits to landlords etc – the availability of such accounts is likely to increase with the introduction of Universal Credit. Legislative reform also now allows credit unions to offer services to organisations as well as individuals.

But the bulk of credit union saving accounts remain as simple products on which members receive a dividend representing a share of any surplus the credit union has made in that year.

It is important that thought is given to credit unions' unique features in designing both the high level principles for all Simple Products and the criteria for the Simple savings products.

The credit union co-operative model means that they are more likely to pay a dividend rather than interest on savings, and require new members to purchase a share in the credit union in order to start using the services.

Credit unions nevertheless pride themselves on providing simple and transparent products for their members. It would be ironic therefore if credit unions were excluded from providing branded Simple Products to their members because of their unique features. We set out in our response some concerns and also suggestions for changes which would allow credit unions to take part in this scheme.

¹ Figures from unaudited quarterly returns provided to the Financial Services Authority

Responses

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

A set of high level principles is necessary so that potential products to be included can be judged against this.

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

Credit unions offer straightforward and uncomplicated products to their members; they operate solely for the benefit of their members and pride themselves on operating fairly and transparently. We would therefore envisage that credit unions will meet 7 of the proposed principles, but may fall foul of principle 6, which is not inclusive enough to allow credit unions offering a dividend to offer branded Simple Products.

We understand from correspondence with the Working Group, that the Simple Savings Product design could not be adjusted to be inclusive to credit unions offering a dividend, but that it may be possible for specifications to be established for specific Simple Credit Union Savings Products. We set out suggestions for these below.

This, however, would not be possible if credit unions paying a dividend were not permitted to offer any of the Simple Products because of principle 6. We would urge thought to be given to this so that a small but growing part of the financial services sector is not inadvertently excluded from a policy designed to promote the very sort of products that credit unions already provide – those that are simple and transparent.

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

Yes

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

We agree in principle to the initial suite, but do have concerns that the design of the products may exclude credit unions. If the specifications of the savings products remain as they are and do exclude credit unions from applying for and receiving accreditation, then we believe that separate Simple Credit Union Savings Products should also be included in the initial suite of Simple Products.

We set out in Appendix A how some small adjustments to the requirements for Simple Savings Products could allow credit unions to be among the deposit takers which are allowed to offer these products.

This adjustment could either be to the existing products – so that credit unions can offer the same product as other deposit takers, or it could form the basis for a separate range of credit union simple products. Either way, this would ensure that credit unions would not be excluded from the scheme.

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

The majority of credit unions will be excluded from seeking accreditation to offer the savings products as they stand at the moment. This is because the vast majority of credit unions pay a dividend on savings, rather than fixed interest, and also potentially because of the requirement for members to buy a share to join the credit union, and potentially an entrance fee.

Some credit unions will have the ability to pay interest on savings, but this will not be open to all credit unions – the Credit Unions Act stipulates which credit unions are able to do this.

Small adjustments to the criteria for the products will allow credit unions to offer the accounts. If it was not deemed suitable for the adjustments to be made to the criteria for the mainstream savings products, we believe that separate criteria for credit union Simple Savings Products should be established, so that those credit unions offering a dividend would not be excluded from seeking accreditation. Changes may also have to be made to take into account the membership model of credit unions which requires a share to be purchased to become a member and use the services of the credit union.

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

No

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

We do not have expertise in this area.

Consultation question 8: Do you agree with this approach?

Yes

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

It would be difficult to see how the products could be developed under the Simple Products badge without any accreditation process, in line with the principle of the products themselves, should be as simple as possible. If firms can confirm that the products they are intending to launch meet the principles set out for each of the products, this should be no more than a tick box exercise.

We would not want to see a situation where the cost of accreditation for simple products meant that smaller credit unions were excluded from the scheme because of unaffordability and would urge that this be considered as the process is being developed.

Thought should also be given to proportionality in the pricing of the accreditation process. The size of firms – and therefore the likely volumes of Simple Products they would supply – should be taken into account. It would be unfair if a large bank which may open hundreds of thousands of accounts paid the same for accreditation as a small credit union which may open a couple of hundred accounts.

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

As long as the concerns about cost and proportionality which we have raised above are taken into account.

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

We agree that the effect of the initiative needs to be properly understood but again, we have concerns about the cost of this and how this would impact upon the cost of accreditation for credit unions.

Appendix A – adjustments that can be made so that credit unions are not excluded from Simple easy access product and Simple notice product

	Simple easy access product	Simple notice product	Proposed Credit Union Simple easy access product	Proposed Credit Union Simple notice product
Product rationale	For everyday savings that can be accessed immediately if needed for an emergency or 'rainy day'	For savings that can be accessed with 30 days' notice for expected expenditure	For everyday savings that can be accessed immediately if needed for an emergency or 'rainy day'	For savings that can be accessed with 30 days' notice for expected expenditure
Minimum balance/deposit	£1	£1	£1	£1
Maximum balance	Not less than [£x]	Not less than [£x]	Not less than [£x] If this was more than £15,000 it would restrict some credit unions from taking part, as credit unions are limited to maximum shareholding of £15,000 or 1.5% of the total shareholding of the credit union.	Not less than [£x] If this was more than £15,000 it would restrict some credit unions from taking part, as credit unions are limited to maximum shareholding of £15,000 or 1.5% of the total shareholding of the credit union.
Method of deposit	No restriction – all methods allowed – none prescribed	No restriction – all methods allowed – none prescribed	No restriction – all methods allowed – none prescribed	No restriction – all methods allowed – none prescribed
Frequency of deposit	No restriction	No restriction	No restriction	No restriction
Charges	No charges for day-to-day usage of the account Charges for exceptional items, such as duplicate statements or replacement passbooks, allowed	No charges for day-to-day usage of the account Charges for exceptional items, such as duplicate statements or replacement passbooks, allowed	No charges for day-to-day usage of the account Charges for exceptional items, such as duplicate statements or replacement passbooks, allowed New members required to purchase a £1 share in the credit union may be required to pay a small membership fee	No charges for day-to-day usage of the account Charges for exceptional items, such as duplicate statements or replacement passbooks, allowed New members required to purchase a £1 share in the credit union may be required to pay a small membership fee
Withdrawal restrictions	No withdrawal restrictions	Withdrawals allowed with 30 days' notice or loss of up to 30 days' interest. No other restrictions	No withdrawal restrictions	Withdrawals allowed with 30 days' notice or loss of up to 30 days' interest or dividend. No other restrictions
Limit on number of accounts per distribution channel	One product, per brand, per channel	One product, per brand, per channel	One product, per brand, per channel	One product, per brand, per channel
Interest restrictions	No introductory bonus No tiered rates	No introductory bonus No tiered rates	No introductory bonus No tiered rates Dividend can be paid instead of interest	No introductory bonus No tiered rates Dividend can be paid instead of interest
Compulsion to offer via specified channels?	No	No	No	No



ABI RESPONSE TO SERGEANT REVIEW OF SIMPLE FINANCIAL PRODUCTS

October 2012

The UK Insurance Industry

The UK insurance industry is the third largest in the world and the largest in Europe. It is a vital part of the UK economy, managing investments amounting to 24% of the UK's total net worth and contributing the fourth highest corporation tax of any sector. Employing over 275,000 people in the UK alone, the insurance industry is also one of this country's major exporters, with a fifth of its net premium income coming from overseas business.

Insurance helps individuals and businesses protect themselves against the everyday risks they face, enabling people to own homes, travel overseas, provide for a financially secure future and run businesses. Insurance underpins a healthy and prosperous society, enabling businesses and individuals to thrive, safe in the knowledge that problems can be handled and risks carefully managed. Every day, our members pay out £155 million in benefits to pensioners and long - term savers as well as £58 million in general insurance claims.

The ABI

The ABI is the voice of insurance, representing the general insurance, investment and long-term savings industry. It was formed in 1985 to represent the whole of the industry and today has over 300 members, accounting for some 90% of premiums in the UK.

The ABI's role is to:

- a. Be the voice of the UK insurance industry, leading debate and speaking up for insurers.
- b. Represent the UK insurance industry to government, regulators and policy makers in the UK, EU and internationally, driving effective public policy and regulation.
- c. Advocate high standards of customer service within the industry and provide useful information to the public about insurance.
- d. Promote the benefits of insurance to the government, regulators, policy makers and the public.



Executive summary and general comments:

1. The ABI is committed to the success of the Simple Financial Products initiative and the long-term objective of increasing financial capability and resilience. We agree that, alongside the Money Advice Service (MAS) and fair and proportionate regulation, the initiative can contribute to more consumers using financial products to meet their needs, and better consumer outcomes.
2. If Simple Products are to achieve their aim, significant consumer demand for them will need to be created. Extensive research that has been undertaken over recent years tells us that there are many consumers who would benefit from using saving and / or protection products, but who do not use them. There remains a huge challenge in changing the behaviour of the large number of consumers who do not recognise a need to save or protect themselves and their families from loss of income due to death or illness. Unless and until that position can be changed to significantly increase the number of consumers who recognise these needs and want to act to address them, Simple Products will have little or no impact.
3. Previous attempts to establish a suite of standardised, simplified products (i.e. Stakeholder and CAT) did not achieve their intended impact because they had little or no impact on consumer beliefs or behaviours. Consumers who see no need or desire to use a financial product are unlikely to be persuaded to change their behaviour in response to industry engagement activity alone. In light of this, and the very high costs of marketing new financial products, previous initiatives have shown that industry had little incentive to invest substantial sums in marketing to an unreceptive, unmotivated audience.
4. A fresh, more innovative catalyst will therefore be needed to create consumer demand - one that does not rely purely on industry marketing, is based on an accurate understanding of what drives consumer financial behaviour, and builds on the work and efforts of Government-led activity such as that of the Money Advice Service. The creation of a suite of Simple Financial Products alone will not overcome all of the challenges involved in changing consumer behaviour. But the ABI does believe that Simple Products do have the potential to have a positive impact IF lessons are learned from the experience of previous initiatives.
5. A further issue central to ensuring provider participation is the regulatory certainty required to offer Simple Financial Products on a non-advised basis. In the absence of a regulatory regime specifically for these products, ICOBS provides the regulatory framework for protection and GI products to be sold through advised or non-advised channels.
6. While we recognise that simple products have been designed to be non-advised products, it is important to recognise that for a lot of consumers (especially if a Simple Income Replacement product is included in the initial suite) some form of guidance or support will be required during the sales purchase process. This



guidance might take the form of a discussion about the consumer's demands and needs, the appropriate products available to meet them, and answering any questions the customer might have. Such a discussion can be made on this basis using the ICOBS regulated non-advised sales process. We think this will be an important route for customers to purchase Simple Products. We seek confirmation from the Review, FCA and FOS that any "simple" protection or GI products will be subject to the same ICOBS requirements as any other type of protection or GI product.

7. We further note that there is a risk that proposed EU regulation will introduce onerous regulatory requirements for (or prevents) non-advised sales. Although the current proposed revision of the Insurance Mediation Directive (IMD) and the Regulation of Packaged Retail Investment Products Directive (PRIPs) would not affect the ability of the current suite of Simple Financial Products to be sold through execution-only or non-advised sales, it is worth noting the impact that such regulation would have were its principles extended, for example, to pure protection products.
8. Further, increased disclosure proposals under the IMD which may require lengthy and complex remuneration disclosure have the potential to detract from the suggested principles attributed to the products and therefore the initiative itself.
9. Finally, providers will need to have certainty that the products developed for the initiative in good faith are not subject to retrospective revision by regulators, the FOS or the Office of Fair Trading (OFT). It will be essential that the accreditation process under which the products are developed and marketed is recognised under future regulatory regimes. This will be particularly important given the likelihood that some of the products will not necessarily be the best product on the market to meet each individual consumer's personal needs and circumstances.
10. While the FSA have engaged with this Review as observers, as the initiative moves toward developing detailed product propositions we hope both the regulator and FOS will play a more active role in contributing and shaping this debate. Without regulatory certainty it will be extremely difficult for the industry to deliver the desired outcomes, making it essential for both FSA/FCA and FOS to become more actively engaged to ensure that firms continue to understand the regulatory context in which they are building and/ or reforming their 'simple' customer propositions.



Responses to Consultation Questions:

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

1. Yes. The establishment of a set of high-level principles will play a useful role in establishing product-specific criteria for a future range of Simple Financial Products.
2. It will be important that these principles are broad enough in their scope to be applied to future product types that may be added to the initial suite.

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

3. The principles correctly identify that the products should have easy to understand features and outcomes and use clear and easy to understand language and product description, as well as the need for the products to produce no unexpected events or consequences.
4. We note that Principles 4 and 7 contain subjective tests around what is “reasonable” with regard to exclusions and fees and charges. There will be a need for a future accreditation body to clearly establish from the outset the parameters of what is deemed “reasonable”.
5. This definition of “reasonable” should not then be subject to retrospective restatement by oversight bodies such as regulators, FOS or the OFT. Insurers will need to have certainty that products developed in good faith to meet the “simple” criteria, will not at a later date be deemed to have been mis-sold because they may not fully reflect the circumstances of the individual customer.

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

6. We agree that a firm should be limited to one issue of a Simple Life Cover product type per *brand*, per channel as this is in keeping with a central tenet of the initiative that an over-abundance of choice can lead to consumer confusion and inertia.
7. Given that the products within the suite will be the same or extremely similar, we believe it is important that providers will be able to compete based on the reputation of their brand and on customer service as is the case in the market already
8. As Simple Financial Products will co-exist with existing products offered by firms, we do not see this stipulation as inhibiting either product innovation or consumer choice.
9. However, we do think that to ensure that there is sufficient customer access to simple products, and to ensure commercial viability, there should not be a prohibition on a product manufacturer offering its product in partnership with others. For example, an



insurer may offer one issue of each Simple Product type directly as well as in partnership with a bank or building society. When in partnership, the product would likely have both partners' brands on the product.

10. Additionally, one product manufacturer's product could be sold through a number of partnerships. If this was prohibited it is unlikely the necessary scale could be gained to make the products commercially viable to product providers. We do not think that this would in any way undermine the principles of the Review or create any additional complexity for the consumer.

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

11. Yes, we agree with the initial suite of Simple Financial Products and their aim of increasing and improving savings habits and increasing the number of people who have financial protection against loss of income due to illness or death.
12. If the initial suite proves successful, we would see merit in extending the initiative to incorporate a broader range of products. For example, including General Insurance products in a future suite could see the inclusion of products that consumers interact with on a more regular (often annual) basis. This would have the added benefit of consumers becoming more familiar with the concept and brand associated with Simple Financial Products more quickly.

Q 5: Do you have any comments on product design?

13. We agree with the Review's suggestion that life insurance is, in essence, a simple proposition that lends itself to the creation of a Simple Life Cover policy. We understand the benefit that standardisation and paring back of options can have for some consumers, and agree that 'add-on' features have the potential to add complexity to the buying process. They increase the choices customers have to make, and add to the volume of information and conceptual understanding that consumers need to take on board to make those choices well.
14. However, we caution that some add-ons (such as guaranteed insurability) considerably enhance the overall value of long-term products. They address key risks that arise over the lifetime of a long-term product, and in doing so reduce the risk of consumers' needs evolving and causing 'premature obsolescence' of the product purchased. There is therefore a risk that 'over'-simplified products will provide sub-optimal value over their lifetime, due to the possibility that later replacement costs (i.e. top-up cover where health history has changed) or the deferred cost of the add-on (such as separate critical illness cover) are materially higher than they would have been if purchased at the outset.



15. We therefore believe that research and/or piloting is needed to understand the positive and negative impacts of allowing specific key ‘extras’ such as waiver of premium or guaranteed insurability to be offered. It is important to clarify the extent to which, on balance, they contribute to, or impair, the value of the product to the consumer.

16. We also believe there is an opportunity around life cover and this consultation to underline the need for more simplification and improvements in the claims process. The idea of moving to a ‘nomination basis’, short cutting the probate process, is one which we support – and believe the simple product review could help promote.

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

17. The “straw-man” described by the Review discusses in-depth all major elements of the product that need to be considered, and represents a good starting point from which efforts to simplify the offering could be taken forward.

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

18. We believe that the *proposition* offered by income replacement products is relatively straightforward, that the need for more consumers to engage with this product is substantial, and that efforts can and should be made to make the product simpler. These efforts should focus on both making consumers better informed about the decisions the product requires of them, as well as efforts to simplify the product itself.

19. However, the Review discusses at length the complexity of the environment surrounding the offering and its inter-connectivity to state benefits. We agree with the Review's suggestions to make it much easier for individuals to understand their existing State and workplace entitlements to help them assess the potential value of buying extra cover.

20. Further thought on this issue is required. For example, this could take the form of firms providing annual benefit statements confirming to customers the amount of cover that they currently have in place through an income protection product, as well as signposting them on where to go if their needs have changed and/or advice is required. Likewise industry could work with consumer groups and employer organisations to provide customers with a series of simple questions that they can ask their employer to identify any occupational benefits that are in place for them plus their employer's policy in relation to long term sickness and disability.

21. At the product level, the ABI has committed to harmonising product language and product literature as part of our review of the *ABI Statement of Best Practice on*



Income Protection. This piece of work forms part of a broader commitment by the ABI to critically assess whether the language and key documents used to describe insurance products are easy for consumers to understand and compare. This commitment is further described in the recently launched ABI policy paper, *“The Way Ahead for Conduct Regulation: A positive Partnership to Deliver for Consumers”*.

22. While this will alleviate some issues, further consumer-testing will be required to better understand what other areas of the product and purchasing process inhibit engagement, understanding and take-up. It will only be after such product-testing that our definitive opinion over the appropriateness of this product to this initiative (and particularly to non-advised sales) will be reached.

Q8. Do you agree with this approach (that a Simple Products badge should be created)?

23. Yes, we agree that a Simple Products badge should be created to act as a navigational tool and mental shortcut for consumers. As set out below, we also think the badge should be supported by the accreditation body. As well as identifying to the consumer that the products have been accredited as having satisfied certain criteria, the badge should also attempt to successfully represent the “character” of the product themselves, i.e. straightforward outcomes, essential features, low-maintenance.
24. It is important that these characteristics are clearly established to ensure that consumers have realistic expectations of the outcomes of the products within the Simple Products suite, and also that the badge does not create unintended negative connotations on products outside the range. There is a risk that products outside a range branded as “simple” or “essential” could be viewed as unduly complicated or having superfluous additional features.
25. Further, we note that given the suggested insurance product (Life Cover) is purchased on average every seven years, it will initially be difficult for this badge or brand to gain familiarity and trust with consumers. The badge will therefore require and benefit from exposure through association with existing brands with which it shares common objectives, such as the Money Advice Service (MAS). It will also require the backing of a concerted campaign aimed at creating the awareness and demand for the products it represents.

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

26. We believe that a formal independent accreditation body is appropriate, and that it is imperative that this process and the body that governs it is credible in the eyes of consumers.



27. While a rigorous process is necessary, it should not be so complex or burdensome that it dissuades firms from engaging, consequently restricting the amount of providers offering these products. The process should be clear and well understood by industry, and seen as consistent and well-monitored. It is also important that the process minimises unnecessary duplication of effort and cost.

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

28. We agree with the proposed functions outlined by the Review and that the MAS is a clear candidate to oversee and support an accreditation body. However, we note that there are others, such as the FCA, whose explicit public involvement would also offer benefits to the process as a whole. We would welcome a fuller analysis of this question in the Final Report, setting out the relative merits of each candidate, so that the report is then well-positioned to make a clear and explicit recommendation on the most appropriate body to take on this role.
29. Further, we believe that the creation of a body wholly separate to those already in existence would be unnecessarily costly and would add a layer of complexity and confusion to the existing environment. Elements of this environment, such as consumer groups and others, could provide input and expertise to the process.

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

30. Yes, consumer research in the following areas is imperative:
- a. "The simplicity dividend" – A greater understanding is needed of the effect that making products and literature simpler will actually have, and what consumers would think of the products. For example, would consumers be attracted to a 'good enough' product? Will they understand that a benchmark product doesn't mean the best and that there may be better products which don't carry the benchmark? Evidence of the benefits of simplicity will be crucial to encouraging the supply of these products.
 - b. The reasons for disengagement – Research needs to be conducted to ascertain where in the "process" people disengage. For example, is this caused by an overwhelming array of product choice, poorly described product outcomes and features, or the perception of an intimidating and lengthy sales process?
 - c. The purchasing process - Research needs to be carried out on how consumers would buy these products, e.g. where would they go to buy, what would they expect the sales process to feel like, would they buy online?
 - d. The badge – What the products should be called, what the badge would look like, what qualities it should represent, how it is marketed etc.
 - e. Suitability of existing products – As described in our response to Question 5, it may be more appropriate and effective to signpost consumers to existing products that already satisfy the principles and criteria for Simple Financial



Products. This would require ascertaining which, and the extent that, additional features to the Simple Life Cover policy inhibit comparison and lead to disengagement.

- f. Future monitoring of the initiative's impact – The initiative will require monitoring of its effectiveness to maintain and encourage participation. This would be a natural function of the accreditation body.

For questions or clarification, please contact:

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HM Treasury: Sergeant review of simple financial products interim report response

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In 2010/2011 the Treasury consulted on the potential for a range of Simple Products. Following publication of the Treasury's response to this consultation last Autumn, the Financial Secretary to the Treasury asked Carol Sergeant to Chair an independent Steering Group to take the work forward. The Steering Group included representatives from financial services providers, consumer groups and other relevant bodies and was supported by a number of working groups. Age UK participated in several of the working groups. Carol Sergeant published an interim report in July 2012 including questions for consultation which this paper responds to.

Key points and recommendations

- HM Treasury and the Steering Group should consider the timescales within which success can be achieved. Launch of the products alone will not guarantee success and it is important that the products are not 'set up to fail.'
- HM Treasury and the Steering Group should also give more consideration to what 'success' would look like. If the objective of the initiative is to make it easier for consumers to choose a product, it may be that success should not be measured by sale of Simple Products alone.
- Consumers want a more straightforward and transparent market and Simple Products have the potential to contribute to this.
- High level principles are essential; these should include more detail on whether a product which changes its terms can be simple.
- We support the extension of the Simple Products range to more complex products, if these can be designed within the high level principles.
- We broadly support the endorsement and accreditation recommendations, but these should be extended to clarify that products can lose accreditation.
- Ongoing and systematic consumer research is essential. This must include research on the basic service levels experienced by consumers of Simple Products to ensure that the products operate as intended.

1. Introduction

Age UK supports the Simple Products initiative. Based on what we hear from the older people through our information and advice service and on our existing research on how older people manage their money we believe there is demand for ways to make the financial services market simpler and that Simple Products could contribute to this. Below are some examples of the comments we typically hear from older people talking about savings accounts (all comments taken from letters to Age UK, unless otherwise stated):

"So far I feel I have coped well with managing my finances and even enjoy doing so. Helps to keep my brain active (I am 79). Continual vigilance is vital. The biggest danger is inertia. Banks and other financial institutions rely on people not asking too

many questions too often. One fear I have as I get older I may just let things be. That is a real danger. One must also guard against old-fashioned notions of 'loyalty' unfortunately. Many older people just do not like change. This is exploited by companies by using special offers for new investors and leaving established members on less attractive deals."

*"I opened a building society account the other day and nearly fell down a big hole because you can only draw out 3 times a year – there's so many strings and I just don't think it's fair, especially for older people."*ⁱ

"There are so many options available it is very confusing."

"Too much choice often leads to more confusion in terms of interest bearing accounts."

Older people may face additional barriers to being effective consumers in the current marketplace, for example because they are less likely than other age groups to be able to access information online and so will find it harder to compare accounts on offer or switch easily.

Age UK was pleased to be able to contribute to the development of the interim report through participation in the working groups on savings and taking products to market, as well as in discussions on the role of behavioural economics and third sector groups in supporting the initiative. We were also pleased that the Treasury has so strongly supported the initiative and has established the framework of the Steering Group which enabled the views of both industry and consumers to be shared in a constructive environment.

We are aware, however, that there are a number of risks to the project. If it is to go ahead, it is important that it is given a fair chance of success. This requires both realistic expectations regarding what can be achieved within initial timescales and appropriate support, for example in brand development and marketing. Where the initiative relies on support from third sector and other non-financial service providers this will also take time to develop.

In our view, the key issue is that the market for these products is too complex and consumers may therefore either be put off entering the market or may make poor decisions because they cannot operate effectively within the market. Simple Products can help in two main ways:

- firstly, by providing a trusted place for consumers to go so that they do not need to understand the entire market; and
- secondly, by providing a benchmark which consumers can use to compare products and navigate the market. However neither of these benefits will be gained automatically by the introduction of Simple Products themselves. Products will also need to be designed to be attractive, well marketed and consumers may need time to adopt them.

We also recommend that further consideration is given to how the success of the initiative will be measured. As noted in the bullet points above, Simple Products may benefit consumers because consumers purchase them, when they would otherwise

have either not bought a product, or bought a less suitable product or they may benefit consumers because they help consumers understand what else is available. Simple Products have also been referred to as 'starter products', so a consumer may first use a Simple Product but then move on to another product. As a result, Simple Products could be successful in increasing consumer engagement with the market even if large numbers of Simple Products are not sold. There may be other ways in which Simple Products could improve the market place and these should be taken into account in measuring success.

2. Responses

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

Yes. These principles would help to ensure that there is a common understanding between industry and consumers of the essential nature of Simple Products. They will also allow new products to be considered to broaden the range of Simple Products. The principles will also be essential for the governance, acceptance and monitoring of Simple Products.

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

We broadly support the proposed principles but are concerned that the issue of changes to terms during the life of the product is not adequately addressed. It is difficult to see how a product can be described as 'simple' if the consumer can end up with a different deal to the one they thought they were getting. We recommend that more consideration is given to the types of changes which can be acceptable and whether any conditions should be attached to change of terms. For example, would material changes give the consumer the right to leave the product or require approval by the accrediting body?

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

We strongly agree with this approach for savings products, without it we do not think it will be possible to maintain the simplicity of the brand. However we suggest that some flexibility is included for other products. For example for some life products it may be preferable that one issue is closed to new investors and a new issue offered, rather than existing investors experience a change in terms during the lifetime of the product.

We also suggest that the distribution between channels is monitored. The interim report at 6.12 states: "It is hoped that, although no particular method is prescribed, there will be a sufficient range of providers of Simple Products, so as to ensure that in practice the accounts are made available via a range of distribution channels and allow a range of payment methods." If this hope is not realised then further consideration should be given to access. The group responsible for governance and ongoing monitoring should be tasked with keeping accessibility under review.

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

We agree with the initial suite of Simple Products proposed. However we note that although these products may be the most straightforward to bring to market they may

not offer the most obvious benefits to consumers. This is because the more complex the existing product the greater the advantage of simplification.

We support the proposal to consider whether other products could join the Simple Products range in due course.

Q5: Do you have any comments on product design?

We do not propose to make detailed comments on product design.

We strongly support the proposal that simple savings products should not have bonus or teaser rates. Bonus and teaser rates add to complexity both in individual products and in the market as a whole and so we do not think that a savings account can be simple if it includes these features. We recognise that this may result in lower initial rates being offered than if bonus rates were permitted, however believe that the current proposal must be supported if the savings product is to retain credibility.

We are also pleased to see the emphasis on standardisation, both of terms and language.

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

See response below.

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

We think that this product should continue to be considered a possible candidate for accreditation. With the changes occurring in the transition to retirement we see the potential for increased need in this area.

The question of whether a product can be sufficiently straightforward will be a major issue for the development of the Simple Products range. We suggest that the Steering Group (or equivalent future body), consider the extent to which the range must be limited by the nature of the product type or whether a product could be accredited if it is considered as simple as is possible (and can be developed within the high level principles) for the product type. For example, could we separately alert consumers to the fact that a certain product inherently includes a higher level of complexity (perhaps using a traffic light system), whilst retaining the message that consumers looking at a Simple Product can be assured that they are looking at a product designed to be as easy as possible to understand, that keeps to the Simple Product principles and is easily comparable with other products in the range?

Q8: Do you agree with this approach (endorsement)?

We agree that a badge or 'brand' will be important to enable the success of Simple Products. We note that it will take some time and resource to gain recognition. As regards the discriminator, whilst we agree that ease is important we would encourage any research on the badge to include the concept of 'reliability' or an equivalent concept which communicates the idea that consumers will not be surprised by a Simple Product.

We note that in addition to the endorsement approach, the interim report also considers the role of third sector and other non-financial organisations in bringing Simple Products to market. A strong endorsement, accreditation and governance approach will be important for engaging with these groups, however, as with the badge development, it may take some time to develop this support network.

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

We agree that a formal independent accreditation process is essential to the proper functioning of a Simple Products suite.

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

We agree that accreditation needs to be rigorous and that the body set up to oversee it should be properly resourced. We agree that the accreditation should not be performed by either Government or the regulator, however we support the continued connection between HM Treasury and the initiative and would suggest that periodic reviews are carried out at appropriate intervals, we would recommend once a year, with more detailed reviews perhaps carried out less frequently.

Although not mentioned in the interim report, we also consider it essential that products should be reviewed regularly and that there is a clear mechanism by which a firm can be required to remove the badge from any previously approved product.

Where approval is withdrawn, there is a risk that existing customers will suffer detriment, as withdrawal is likely to occur when a product is no longer performing as existing consumers would expect. The Steering Group may wish to give further consideration to how this could be dealt with, e.g. should existing consumers be informed personally of the change and the reasons for it? Should they be entitled to exit the product and could they even be entitled to compensation in some cases?

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

We consider that ongoing and systematic consumer research is essential. This will not only enable those promoting the initiative, both within industry and other partners, to ensure that efforts are targeted, but will also be vital for governance.

The consumer research should also include questions on the service customers receive surrounding the product. For example, the section of the interim report looking at life products notes that aftersales communications will be a key part of the product. If customers are not actually able to operate their accounts in accordance with the terms (e.g. if there are errors in the operation of the products) then customers will not actually be benefiting from the initiative and the Simple Products badge will be damaged. Governance will therefore need to consider how to include the impact of minimum service levels on the accreditation process.

ⁱ An Inclusive Approach to Financial Products, Annex 2: the views of Age Concern forums, 2008



AIFA's Response to: Sergeant Review of Simple Financial Products: Interim Report

About AIFA

The Association of Independent Financial Advisers (AIFA) is the representative body for the IFA profession. There are approximately 16,000 adviser firms that employ 128,000 people, and turnover is estimated at £6.5 billion (including £4.5 billion from life policies, £1 billion from fund management and £1 billion from mortgages and general insurance). Around 20% of the UK population regularly use an IFA, with c45% consulting one from time to time.

Membership is voluntary and on a corporate basis. IFAs currently account for around 70% of all financial services transactions in the UK (measured by value). As such, IFAs represent a leading force in the maintenance of a competitive and dynamic retail financial services market.

Summary

To address under-consumption of savings and protection there is a recognised need for consumers to better engage with the financial services sector and better protect themselves against future uncertainty.

AIFA is broadly supportive of the high level intentions in the report in terms of helping consumers to understand what they are buying and making better financial choices. Indeed given the UK's worrying savings and protection gaps it is now more pressing than ever that consumers are encouraged to engage with their long term financial well-being.

However, there is a general point that the direction and style of financial regulation (at EU and national level) work against HMT's aim to try to make engagement with financial services easier. Conventional "sales" of investment products are prohibited. The relationship between consumer and industry is so rule bound that a difficult topic becomes even less attractive to the consumer.

People need persuasion to engage with financial matters. Anything that complicates or raises the cost of the persuasion (advice or sales) will subsequently reduce supply and demand. FSA has no remit to promote access and this will act against the policy goal of increasing take up of products in this area. There is a disjunction between the government's social aims and the regulator's remit. Any regulator will have a natural tendency to make matters safe to the extreme so as not to be judged as failing. This will tend to reduce access.

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

Yes - Guiding principles are necessary if there is to be a measurable standard as to what a simple product is.

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

Principle 1 & 4 would appear to be an essential element, but there is a question as to how far more complex financial products could be made to meet these.

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

Yes - it would be important that firms are limited to one product of each type per brand per channel. Proliferation would be counter-productive.

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

Yes – the initial suite of Simple Products (easy access savings account, 30 day notice savings account and life cover) are a good start and can lead the way for a more extensive offering in the future. The question of whether an income replacement product can be made sufficiently simple goes to the heart of how far the simple products initiative can go.

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

To count as “simple” we would expect products to meet an absolute or relative standard. The explanatory material would have to be clear and match the product to put beyond doubt that a reasonable customer could not have misunderstood what they had bought. Inevitably some products are more straightforward than others – eg basic savings account. Further products (investment savings, pensions, annuities) are by their nature more complex. No doubt, products could be designed to meet the principles (or at least be simpler than current products on the market), but they may fail to be “simple” in the ordinary sense of the word. By way of Example, would someone be able to buy a simple annuity off the shelf and understand what they had bought?

Consumers won't understand an investment product that relies on financial engineering or opaque instruments. Conventional equity funds would need to have clarity about what they actually are rather than being euphemistically named by marketing departments. Only the most straightforward funds will pass the test.

Pensions might be possible but there would have to be no fund choice or very limited range to select from. Annuities would probably be possible as outcomes could be comprehensible. However, the question the consumer should be considering is less about the product and more about how best to use their pension pot.

If simple products give people false comfort about it being a good option, the whole concept will be undermined. Annuities are best left for this reason but also at that stage the problem of engagement is largely in the past. Either someone has saved and has a decent sum or it's too late to start at the point of retirement.

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

The question of whether a simple income replacement product can be made sufficiently simple goes to the heart of how far the simple products initiative can go.

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

Given the number of design aspects that need to be considered, it may prove a difficult task to create a simple income replacement product that offers certainty of pay-out in the event of a claim.

Q 8 – Do you agree with this approach?

Yes – we agree that a simple products badge would be an aid to consumers considering a purchase.

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

No – we do not agree that an accreditation process is necessary and would not want to see a quasi-regulatory body set up to police this space.

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

No - The products are all but designed – they either are or aren't simple products. Use of the logo would need to be policed, but FSA/FCA has rules on financial promotions – “clear, fair and not misleading” which should provide sufficient scope for action.

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

The questions to address are interesting but research on these is likely to be expensive and inconclusive. The outstanding question is will simple products have traction with consumers without being pushed?



Avelo & Lifesearch Response to Sergeant Review on Simplified Products

October 2012

Background

This paper is the response to HM Treasury, simple financial products consultation paper and is the submission produced on behalf of Avelo and Lifesearch. We have given permission for this paper to be published on HM Treasury's website.

Avelo (previously 1st – Exchange) have c500 staff across 5 UK sites and the group provides a number of market leading products and services for the Financial Service Industry which can be summarised as follows:

- Portal Services used by c32,000 Financial Advisers in the UK – used to compare many products – including protection
- Financial Desktop Solutions used by c12,500 Financial Advisors in the UK

A client selection is set out below:



LifeSearch arranges around 1000 protection policies each week and, is thus Britain's largest non-single-tied Protection distributor according to the Touchstone index used by the ABI to record independent distribution. Founded in 1998 by a team of experienced financial advisers to provide low cost advice and protection policies in a simple and straightforward way, LifeSearch has pioneered the provision of high quality advice at no added cost to consumers through using a phone based needs analysis and solution provision process that customers love. In an independent survey last year LC Consulting found that 94.7% of LifeSearch's customers would recommend the company to the friends and family. This is an unprecedented net-promoter score in financial services advice.

LifeSearch acts for several household name brands, ASDA, Compare the Market, Go Compare and Swinton amongst them, as well as being used by many IFAs as a specialist service provider.

Lifesearch has been recognised as the protection adviser of the year in 8 of the last 9 years and has won well over 50 industry awards for advice service, innovation and compliance.

LifeSearch Limited is an Appointed Representative of Baigrie Davies and Company Limited, who are authorised and regulated by the Financial Services Authority (FSA).

Response to Questions

This section provides our response to the questions posed in the consultation paper.

Chapter 5 Simple Financial Products Principles

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

Response: We agree that there should be a set of high level principles.

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

Response:

General - The high-level principles should focus upon helping create and identify simple products as well as how they fit with existing products – especially cash ISAs. They need to be explained to the consumer in context with existing products. We could inadvertently add to consumer confusion if we add product names onto what can be quite a complex landscape.

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

Response: No, we cannot reconcile 6.21 and 6.25 - if you have to show channel restrictions in the product category would this not prevent the limit of 'one product per simple product category'? Or are you saying larger manufacturers will have to price on all channels in one product type – in which case they will not be able to price to cost?

Chapter 6 Simple Financial Products

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

Response: We agree that deposit based savings should be the initial area of focus.

We are concerned that research in US (Limra) suggests that sales of protection since 1975 are highly geared to consumer wealth and the number of 'advisers' or agents. Experience of sales via aggregator sites shows that significant proportion of people who are self-directed (hence have overcome inertia) still want and need to talk to an adviser/agent to complete the sale. There is still an enormous amount of misunderstanding on the amount of cover they need. Use of heuristics or 'people like you' may help drive non intermediated sales. There will also be a difficult compliance process for agents/systems to include comparison of simple and complex products, or features not in the simple product that may be of benefit to the consumer (albeit in non-simplified products). This will create additional consumer confusion.

We believe that a simple income replacement product should be prioritised above life insurance. The ownership of the most basic of these products, ASU, is valuable product whose sales have collapsed due to the PPI issues and needs to meet complex new rules and the need to be re-branded/re-launched to ensure take-up of this highly valuable product to the market. We can simply identify that we are looking at temporary versus long term, linking across to fuller advice for IP. A product that is simple and clearly prevents poor client outcomes will re-build trust, generate a working market and enable us to remove some of the controls that make sales difficult. Deferred period should be linked to employer cover – with a possible structured e-mail to employer to check.

In addition to deposit savings, we should consider annuities where significant amount of consumers do not use the OMO.

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

Response:

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

Agree for deposit accounts (albeit that this could restrict product innovation).

The different methods of application, deposit and withdrawals generates a significant part of the choice confusion. There should be some minimum defaults.

For protection products, we are not sure that the primary barriers to purchase are limiting the extra product features. There needs to be more research with aggregators and call centres who are dealing with mass market consumers.

For income replacement the product and features have to wrap around the income the customer wants to cover in event of illness and for how long.

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

Agree to a point

If the 'industry' is using different language elsewhere, how will the consumer be able to compare simple and complex – or do we not expect them to be able to do this? Have we tested which part of current language is not understood and how difficult it is for comparison? Will we use best buy tables – these are the most significant component enabling consumers to make choices.

On protection we need to tie in customers to their needs and required outcomes. This will requires use of people like you and heuristics to help explain how much cover, because what they actually want is to cover debt and loss of income if someone died.

On income replacement there can be consumer confusion over ASU versus IP. This needs to be addressed

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

Agree

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

Agreed for easy access and notice account.

For protection, with gender directive coming into play, we anticipate increased competition for specific consumer groups that will require additional questions sets and may add to exclusions. Hence price in 'complex products' will be much lower (in same way as 'complex' enhanced annuities deliver better client outcomes).

IP – as discussed depends on strategy – if ASU, will have exclusions

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

The term 'straightforward and clear processing purchase' is highly subjective. This principle is not helpful.

For protection we should consider a common quote form as applies to enhanced annuities.

This will significantly simplify the process. On 'more could be done to prepare consumers prior to commencing the application process' - this is actually exactly what LifeSearch does (to simplify the process). 'Information packs' are an extremely poor ways of communicating, as are multiple paragraphs on websites. What works brilliantly is a telephone conversation/web chat, where a professional agent gets the brief from the client and resolves

it in the simplest way best for the specific client. The result is provably cheaper and better value than equivalent non advised solutions.

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

6.20 - Excluding introductory offers, incentives etc would be counterproductive. The impact of these have been explored within behavioural economics and are seen to have an enormous impact on breaking inertia. Removal of tiered rates will put simple products at a disadvantage to 'complex' products.

6.21 - Allowing channel restrictions will generate choice confusion (manufacturers may have an internet only product and other channel products).

6.22 - Agree, but also need to be able to compare simple products against complex in the market (via call centres and aggregators)

6.23 - How will service quality be assessed by consumers?

6.24 - How would we assess and monitor the requirement 'to ensure they continue to receive an attractive deal'? This is again relative and subjective.

6.27 - Surely the fact that rates have not increased is just as important.

6.54 – You have excluded mortgage term therefore

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

Agreed

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

Current/term accounts - Why not show where the account rate is in quartiles against market performance – or alert if falls into bottom quartile for interest rate? We need to nudge people to review rate they are getting if it does not stay competitive.

Communicating rate changes alone does not help consumers understand what to do (i.e. is this change in common with market, with other products from the manufacturer etc).

There is need to tap into behavioural economic principles to generate social norms and generate a savings behaviour. We need to create triggers and automated future saving step-ups, linked to future pay increases etc – aligned to achievement and progress against goals. Protection/IP – there needs to be follow-up communication reinforcing the reason for sale and triggering potential increases (or decreases)

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

Response:

Unsure if we should be trying to simplify IP – will this be right for simplified, or making it easier to sell ASU – perhaps with extended payout period?

If Providers compete only on brand, rate and service this could potentially stifle innovation and remove some very important additional features. Key in product design is ensuring certainty of outcome.

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

We would need to target ASU, rather than dumb down IP.

6.63 Tools have been developed to exclude people who will lose means tested benefits – Avelo has developed a simple solution to do this (bencalc).

Chapter 7 Endorsement

Consultation question 8: A Simple Products badge should be created to signpost Simple Products for the consumer in a complex marketplace. Do you agree with this approach?

Financial Services reputation is at an all-time low – and bad news keeps on coming. The industry need to build trust and confidence and therefore ‘trusted’ products should help. It must not detract from other quality products (e.g. ISAs).

The other key area which needs to be considered is whether there is a clear and simple map across to other more sophisticated products. Where this is possible, distributors should justify why they are recommending a more expensive product type and benchmark to the simplified solution.

Chapter 8 Governance

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

Response: Providers should be allowed to develop their own products within an overall framework but they should be approved to ensure that they are simple to understand and deliver the required performance.

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

Response: Simple products should be required to undergo a process of compulsory evaluation to ensure that they meet certain minimum standards, i.e. in much the same way as new car designs are required to prove their ability to protect their occupants (and pedestrians) in the event of a crash then perhaps simple financial products should also be required to meet certain minimum performance standards. This would, of course, need to extend well beyond a list of product features, i.e. into areas such as, financial stability of the provider, customer service standards, claims payment records (for protection contracts), etc.

Chapter 9 Research Recommendations

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

Response: Providers should be allowed to undertake their own consumer research and develop their own products within an overall framework but they should be approved to ensure that they are simple to understand and deliver the required performance.



Aviva response to 'Sergeant Review of Simple Financial Products: Interim report'

Overview

Aviva is very supportive of the Simple Products initiative. We believe that savings and insurance products are of real benefit to individuals, families and society. They allow consumers to benefit from prosperity and peace of mind, enable capital to be invested in the UK economy and, by encouraging financial resilience, ease fiscal pressures on the State.

The context is one of significant savings and protection gaps in the UK. One way to encourage more people to take up financial services products is to offer simple processes and products that will allow them to make a straightforward purchasing decision. The Simple Products initiative provides a very useful platform for this and can help rebuild consumer trust in the value of savings and insurance. We believe Simple Products have a key role to play in closing the saving and protection gaps.

The report is well thought through and sets out a solid base for the development of Simple Products. We support many of the recommendations, including the initial product set, the brand framework and the establishment of an accreditation body. We are particularly pleased that this initiative uses insights from behavioural economics to understand consumers as they actually are. We now know that complexity and too much information can hamper decision making, so a tight choice architecture, social norms and a strong heuristic are key ways to prompt action.

Clearly, more work remains to be done in deciding how products, such as an income replacement product, can meet the Simple Products principles and how the initiative would work in practice. As the biggest insurer in the UK we have a great deal of consumer insight and remain keen to support policy development in this area.

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

1. It is important to have a set of high level principles that are applicable to all future Simple Products. A clear set of principles will help judge:
 - a. Which other product types may be suitable for inclusion in the initiative.
 - b. What their key features should be.
2. Using a set of high level principles will help ensure that there is consistency to Simple Products and prevent the suite expanding into inappropriate product types.
3. The principles should be stress-tested to ensure their applicability to other forms of simple product (e.g. critical illness cover, investments etc.) that there may be demand for at a later date.

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

4. The principles are suitable in that they set clear expectations whilst being high level enough to be applied to a variety of product types.
5. We consider that the principles cover the main areas needed to ensure that Simple Products are straightforward, easy to understand and easily identifiable.



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

6. We understand the channels to be online, telephony, branch and formal or informal advice, as set out in Appendix B.
7. The proposed limits will constrain the number of Simple Products on the market and the number of products that a firm can sell. One of the insights from behavioural economics is that too much choice can be confusing and make decision making more difficult. So, a limited choice should make it easier for the target consumers to select a simple product.
8. Allowing firms to sell a different issue per channel provides an appropriate level of flexibility. However, care should still be taken in this area, as there is a risk that multiple variants of a firm's product will confuse consumers.

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

9. We agree with the initial suite of three Simple Products.
10. We consider that it is possible to develop a Simple Income Replacement Product. However, we acknowledge that the suitability of the product is dependent on the availability of employer benefits and means tested State benefits and how these relate to the financial calculation for each consumer policy purchase. There is also some work to do in relation to occupational pricing and deferred period choice to simplify the product.
11. We strongly believe that a Simple Income Replacement Product will have strong customer demand and will play an important part of delivering the initiatives objectives.
12. We consider that Simple Products could play a role in encouraging long term savings. After the initial suite of products is launched, it may be worthwhile exploring the merits of defining a regular savings products or an investment product. We are conscious however that the possibility of capital loss would not sit well with the Simple Products initiative given its key selling points of 'safety' and straightforward outcomes.
13. We believe that the Simple Products approach may also be extended into the General Insurance market (e.g. travel insurance). This approach would have the advantage of ensuring that the Simple Products 'brand' becomes more established with customers through their more regular interaction with this market.

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

14. We restrict our comments to Simple Life Cover.
15. We agree that life insurance in its most basic form is already a simple proposition. We also agree that the best way to ensure that Simple Life Cover meets the criteria for a simple product and really acts as a straightforward entry point is for it to simply pay out a lump sum in the event of death, to exclude options such as Waiver of Premium or Guaranteed Insurability Options, and to have uniform terms and conditions. The lack of additional features will cut down on the number of choices and concomitant information, which could act as a barrier to engagement and understanding.



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

16. The proposed design seems appropriate subject to the considerations in our response to question four above.

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

17. Yes, we believe this product can be made sufficiently straightforward to qualify as a simple product. However, firms will need clarity from the Government on the relationship between means tested state benefits and simple income replacement products for them to have the confidence to provide them.

Consultation question 8: Do you agree with this approach?

18. We agree that a Simple Products badge or marker is a good way for accredited products to signify that they are accredited. A memorable badge could act as an effective mental shortcut or heuristic for consumers.
19. The badge needs to be simple and straightforward, in keeping with the Simple Products brand, and should be capable of being applied to product literature.
20. The interim report notes that a brand is much more than a badge and comprises a set of values. It is important that the brand is developed first and other materials, including the badge, flow from this. This approach means that other materials produced as part of this initiative (such as a website), will have the same look and feel. Consumer research will be needed to develop the brand and its personality (the Money Advice Service (MAS) may have conducted relevant research in developing its brand and proposition).
21. The brand framework set out in the interim report is well thought through and easy to understand. However, there are two challenges:
- a) There will need to be sufficient resources to build public awareness of the brand for providers to see value in taking part.
 - b) The Simple Products brand is designed as clear and straightforward, low maintenance and sensible. However, if the badge were applied to a provider with a very different, perhaps polar opposite, brand values then this endorsement may lack credibility and could even confuse.
22. There may be benefits in leveraging the MAS brand given the strong links between its remit and this initiative. However, for this brand extension to be credible the MAS will have to play a leading role in the governance process, such as managing the Simple Products accreditation body. It is important that the credibility of this brand is tested with customers prior to a final decision.
23. It is worthwhile considering creative ways in which these products can be accessed by its target market. Given that these products have gone through a process that provides reassurance that they will provide a good deal for many, there is the opportunity for them to be accessed through organisations such as charities, employers, affinity groups, virtual networks and others. These organisations are more likely to trust an independently accredited product and, in turn,



consumers are more likely to trust these sorts of organisations. We have seen examples of charity partnerships working well in micro-insurance products in emerging markets and believe that there is scope for them to work well in the UK as well.

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

- 24. We agree that a formal independent accreditation body is necessary to ensure that the brand has credibility.
- 25. The accreditation process needs to be rigorous, but not so difficult that it becomes a disincentive for firms to develop products and apply for accreditation. Further, a complex process will only be expensive for the accrediting body to run.
- 26. The public will only respect an independent body so it needs to be suitably distinct from any distributor or product manufacturer. It needs to be free from conflicts of interest, have transparent criteria for the selection of its members and, ideally, there ought to be ways for members of the public to engage with it.

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

- 27. The potential constitution and functions of the body, as laid out in paragraphs 8.14 and 8.15 of the interim report, seem sensible.
- 28. We agree it is important that the body is streamlined, has a clear and tight remit and that its costs are kept low. As the report notes, industry, consumer groups and others can be harnessed to provide the secretariat and build up its processes.
- 29. We agree that the MAS may be best placed to support the accreditation function given the strong overlap between its objectives and expertise, and that of the Simple Products initiative.

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

- 30. It is critical that ongoing consumer research is used to establish the likely impact of the initiative and suggest ways that it can be improved, in particular regarding:
 - a) Product names, including the generic name 'Simple Products', which may be seen as unattractive or patronising. A name like 'basic' or 'foundation' may illustrate that it is an entry level product but in a more neutral way.
 - b) Likely buying behaviour given a number of different purchasing scenarios and distribution options.
 - c) Any regulatory barriers to customer take-up (e.g. excessive product literature etc.).
- 31. Ongoing research on channel preference is also necessary. The analysis published in the interim report shows that the online channel has average to high usage among the majority of the target market. However, it also shows material support for phone and face to face interactions. We have some conducted some qualitative research recently that shows that this sort of personal interaction may be required at the point of sale to give some reassurance that buying Simple Products is a good (but not necessarily the perfect) choice.



32. One has to be realistic about the impact of the initiative on the protection and savings gaps. In the short term, uncertainty about future incomes and job prospects, credit conditions and economic growth will be significant factors affecting household saving rates. The Office for Budget Responsibility expects the savings ratio to continue to fall in the next four years.¹
33. We would encourage HM Treasury to consider what promotions and incentives it can put behind these proposals to further engender trust and to nudge people towards making the right decisions for their families, both in the short and the long-term.

¹ OBR (Economic and Fiscal Outlook, November 2011)

Sergeant Review of Simple Financial Products: interim report
Response on behalf of Barclays Bank plc

Barclays welcomes the opportunity to respond to this consultation. We remain supportive of the Simple Financial Products initiative and eager to play our part in moving it forwards.

Our goal is to become the “go-to” bank, so that consumers choose us for all their financial needs. This vision depends on the transparency and accessibility of our products, which applies equally to basic products as to those that offer a greater number of features and conditions. Across our range, we place great importance on understanding what customers want from products. As such, we strongly support the proposals for consumer research outlined in the Interim Report. We believe this is critical in successfully introducing simple products to the market and, ultimately, creating a savings culture in the UK.

We are comfortable with the high level principles contained in the Interim Report as providing useful context for the development of simple products. We also agree that an instant savings account and simple life cover product are the best areas to test the simple products initiative.

The bullet points below summarise the key areas of our response:

- **Consumer Research:** We note that there have been previous attempts to create simple financial products, such as the CAT (Charges, Access, Terms) standards initiative. There was ultimately very little demand for these products, and they eventually became unattractive to customers and providers. This experience illustrates the importance of consumer research and testing in achieving the successful introduction and take-up of simple products. We would be pleased to take an active role in the development of the research and in exploring funding options with other banks.
- **Simple Savings Product:** Barclays is keen to go as far as possible towards providing customers with a simple savings product that meets their expectations over a set period of time. Subject to consumer research and regulatory compliance, we would give serious consideration to introducing a ‘simple’ savings product that has extended longevity in order to enhance consumer trust and peace of mind. In making this suggestion, we are conscious that regulatory practice and guidance, together with new innovations or changes in external economic conditions, may require firms to periodically review products and, in specific cases, withdraw them. As such, we believe providers should have the right to withdraw the product in certain circumstances as long as they do so with a high degree of transparency.
- **Simple Protection Products:** Barclays fully supports the design for the simple life product and looks forward to working towards its delivery. While recognising the need for a simple income replacement product, there are complexities that as yet need to be resolved and we would caution that we continue to have significant doubts as to the commercial viability of this product, given past learnings from PPI and other income protection products. Our preference would be to focus on the successful delivery of the simple life cover as a first step.

If you require further information or would like to discuss issues raised in this response, please let us know.

Response to consultation questions

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?

- Barclays is comfortable with the list of principles in the Interim Report as a high level framework.
- The principles provide a useful context for the development of simple products. Moving towards the introduction of simple products, we would welcome an accreditation process focussed on whether products align to specific product design features. A subjective interpretation of the principles to each application could lead to potential uncertainty and, as a result, fewer products put forward for accreditation.
- We envisage the requirement under Principle Two (“using the same language and presentation for product information”) to relate to an agreed industry ‘Summary Box’ approach for key product information. We believe a summary of this nature would enable consumers to assess the product. We would expect firms to remain free to use their own style, branding and legal conditions in order to compete in the market. Were this flexibility not available, it would raise the risk of fewer products created - due to the additional administration required to agree common industry terms - and a reduction in competitive differentiation.
- We note that industry interpretation will in large part be governed by existing law and regulation which defines standards in many of the areas covered by the principles. This includes the Payment Services Regulations, Consumer Credit Act and the FSA Principles for Businesses and various Conduct of Business sourcebooks.

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

- Barclays notes that this proposal would allow providers to offer different products (or the same product at a different price) by brand and/or by channel, which we support.
- This proposal also implies that firms would be unable to retire products and replace them with new ones offering different features. In response to this, Barclays is keen to go as far as possible towards providing customers with simple, reliable products that meet their expectations over an extended period of time. Subject to consumer research and regulatory compliance, we would give serious consideration to providing a savings product under the ‘simple’ brand that has extended longevity.
- It is worth noting that FSA regulatory practice requires firms periodically to review existing products to check whether the product continues to meet the general needs of customers. A product's performance may be significantly different from that which the provider originally expected due to new innovations or changes in external economic conditions, for example¹. The

¹ See the FSA’s ‘The Responsibilities of Providers and Distributors for the Fair Treatment of Customers (RPPD)’:
http://media.fsahandbook.info/Handbook/RPPD_20070716.pdf.

FSA's guidance on 'treating customers fairly' also calls for firms to conduct mystery-shopping exercises; post-launch reviews of products to ensure that the right consumers have been targeted; refine the product design process; and withdraw products that have not met customer needs². As a result, it should be expected that some 'simple' products may have to be updated to reflect changed circumstances, or in specific cases, withdrawn altogether. In such circumstances this would necessitate a back book for simple products.

- Firms may also take products off-sale due to changes in Government policy. For example, Barclays withdrew TESSA-only ISAs when a policy decision was made that these could be combined with standard ISAs; and Child Trust Funds were taken off-sale following the Government's decision to launch the Junior ISA.
- We would also imagine the new Prudential Regulation Authority may have concerns about firms launching products that are 'guaranteed' not to change. Such promises could, at the extreme, cause excessive financial risk for the provider, as evidenced for example by Equitable Life.
- In view of the regulatory practice described above, we would expect each customer to be provided with a clear personal communication in the event that a product needed to be replaced, and that they would have an easy mechanism to switch if they chose to do so. While it might be suggested that a provider could automatically migrate customers to a replacement product, this may not be compliant with their wishes so should be avoided in our view.
- Barclays advocates that there should be sufficient flexibility in the simple products regime for a product to qualify for the 'simple' badge if launched in expectation of product longevity; but the provider would have to retain the right to withdraw the product in limited circumstances, with a much higher standard of transparency in that event.

Chapter 6 Simple Financial Products

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

- Barclays is supportive of testing the simple financial products concept in the identified areas of Savings and Insurance. We agree that an instant savings account and simple life cover product are the 'entry level' requirements for most customers, so would be suitable candidates. We also recognise the attraction of having an alternative savings product for longer term saving.
- At this juncture, we would highlight that the initial suite of products has been developed by the working groups without reference to consumers. In order to ensure that simple products meet the needs of the target market (and are therefore taken up), it is essential to ask customers what they would like, and ascertain which products and features would attract them. Please see our further comments below on how this could be approached.

² See the FSA's 'TCF in product design' July 2007: http://www.fsa.gov.uk/pubs/other/tcf_product_design.pdf.

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

- The draft product designs certainly address the desire for simplicity. Moving forward, we are keen to explore how attractive they would be to the target market, in the absence of features that would typically motivate adoption. We envisage consumer research would facilitate this.
- Indeed, the importance of correctly identifying and providing products that respond to the target markets' needs is a core FSA requirement. As will be appreciated, the 'simple' products being considered will ultimately be regulated by the future Financial Conduct Authority, and will need to be compliant with their principles, rules and guidance on product design. We would hope the FCA will embrace the intentions of the simple product agenda and lend their support to this initiative after consumer research and further work allows for more detailed planning of the product designs.
- We would also suggest that a balance may need to be found between the longevity/stability of a savings product and the relative attractiveness of the interest rate. In the proposed product design, we note the intention to specify a 'maximum balance' (Interim Report, page 36). One option that may merit testing with consumers could be a product with a relatively more attractive rate, together with a maximum balance restriction.
- Finally, we note that providers will have to consider carefully how simple products sit in their product range alongside other (new or existing) products that may not fully adhere to the 'simple' criteria.

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 would like to answer both questions (6 and 7) together, but would first like to confirm our support for the simple life product. We believe its introduction should be the primary focus as the first simple product in this area.
- Turning to the proposed simple income replacement product, we recognise that a need exists for individuals to protect their income if they become too ill to work, and that it would be desirable for a product of this nature to form part of the Simple Products suite. As highlighted in the report, however, this is clearly a complex area.
- Barclays believes that further research is required to ascertain whether an income replacement product could be made sufficiently straightforward to be incorporated. In some key areas, there remains a tension between ensuring that an income protection product meets the needs of an individual and ensuring it is adequately 'simple'. For example, the current design contains a number of deferred periods that a consumer would need to choose between. While this may be seen to detract from the simplicity of the product, it is necessary in order to appropriately reflect

the circumstances of the individual (taking into account important factors such as cover provided by employers, savings held by the consumer and their other sources of income).

- Further consideration is also required as to how the product would dovetail with any state benefits to which the claimant may be entitled at point of claim, and we are conscious that the benefits regime is undergoing a period of substantial change as the Government progresses towards the introduction of Universal Credit in 2013.
- We would caution that we continue to have significant doubts as to the commercial viability of a Simple Income Protection/Replacement product, given past learnings from PPI and other income protection products. So while Barclays is supportive of further work to examine how a simple income replacement product could be achieved, our preference would be to focus on successfully delivering the simple life cover product.

Chapter 7 Endorsement

Consultation question 8: Do you agree with this approach?

- Barclays recognises the merits of adopting a kite mark or badge that would consistently identify a product meeting the simple financial product criteria. It is important that there is a well-established common understanding as to what the kite mark means. We welcome the indication in the Interim Report that the kite mark should signal ease of use/access/understanding, rather than attributes relating, for example, to price or value. We fully support and encourage the intention to ask consumers their views via research.

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?

- Barclays recognises that an external accreditation body is needed to help achieve recognition and widespread acceptance of simple financial products.
- We would like to suggest that, alongside the proposal of setting up a new independent body, further consideration is given to broadening the capability of an existing independent body such as the Money Advice Service as a possible alternative. This extension in capability could also cover on-going leadership of the Simple Financial Products initiative across the industry. As well as containing costs, this approach might enable the accreditation body to be operational more swiftly. It might also seem preferable to build on existing resources, rather than creating another body, in view of the Government's focus on deregulation.

Research Recommendations

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

- We agree that consumer research is extremely important and that the current priority should be to research the core elements of the initial proposals. This is set out in paragraph 10.1 of the report; i.e. to:
 - Develop and test straightforward language for Simple Products
 - Test the effectiveness of the proposed straightforward processes and product design
 - Test the look, feel and impact of a Simple Products badge
 - Establish how best to promote the Simple Products brand.
- We would be keen to help with development of the research design and would be pleased to explore funding options with other banks.
- We would envisage two initial phases of qualitative research, operating in parallel. These could cover, perhaps via focus group, 1) the initial product suite, design and relative attractiveness; and 2) the marketing, branding and badging of simple products. We would then suggest a quantitative project on likely demand and consumer preferences for product characteristics. In order to ensure it provides a workable way forward, it would be important for the research to be independent. We would also like its design to be agreed by consumer groups, industry, Government and Carol Sergeant's Steering Group.
- We note that consumer research at this time is likely to pick up 'noise' around current economic conditions and the impact this is having on consumers' ability to save and/or insure themselves. Even so, it is essential to have a comprehensive understanding of customer opinion on which to base the final recommendations of the Simple Financial Products review before they are delivered in February next year.

OCTOBER 2012

Sent by e-mail to simpleproducts@abi.org.uk

BBA Response to Sergeant Review of Simple Financial Products: Interim Report

The BBA is the leading trade association for the UK banking and financial services sector. We represent over 200 banking members, which are headquartered in 50 countries and have operations in 180 countries worldwide. These member banks collectively provide the full range of banking and financial services and make up the world's largest international banking centre.

Overview

The BBA welcomes the opportunity to respond to the Sergeant Review of Simple Financial Products: Interim report consultation.

We believe that the Interim report represents a significant step forward in terms of forging a stronger consensus on what the simple financial products initiative is seeking to achieve and how this might be delivered.

The development of simple financial products has the potential to secure increased consumer engagement with financial services and help to address the savings and protection gap.

Customer demand for simple products will drive product viability, as will the ultimate product design and distribution channels employed. For example, simple deposits which do not include introductory bonuses present a challenge for providers to extol the benefits to customers of choosing a simple product over a product with a higher introductory rate.

The Money Advice Service Financial Health Check could help to drive demand by raising consumer awareness on financial need and directing consumers to action plans. However, recent research submitted to the Treasury Select Committee¹ has raised serious concerns on the effectiveness of the Financial Health Check to date in term of driving consumer action.

Consumer Research

We welcome the Interim report's recognition that further consumer research is required in the short term to develop and validate certain key aspects of the proposals.

We believe that consumer research is key to estimating consumer demand for the products under consideration and would underpin the business case.

A suitably representative sample of the extensive target market would need to be covered and it follows that this is likely to be quite a substantive piece of work.

The tight lead time ahead of a Final report in Feb 2013 suggests a phased approach to this research could be pursued as follows:

- First, qualitative research could establish views on the initial product suite, the product designs and their relative attractiveness;
- Second, further qualitative research could gather views on promotional aspects, including the 'simple products' badge and how best to promote the 'simple products' brand;

¹ <http://www.parliament.uk/documents/commons-committees/treasury/IFFreport-MASonlinehealthcheck.pdf>

- Third, quantitative research could be undertaken on the likely demand for specific product types. This may have to be commissioned by potential providers, as consumer responses would be influenced by the individual firm's brand, sales channels and pricing etc.

We note that consumer research at this time is likely to be influenced by current economic conditions and the impact this is having on consumers' ability to save and/or insure themselves. Even so, we consider that it is essential to have a comprehensive understanding of customer opinion on which to base the final recommendations of the Simple Financial Products review, before these are delivered in February next year.

Governance Arrangements

We agree that independent accreditation of simple products would help to underpin consumer confidence in the products brought to market under the simple products 'badge'.

However we are concerned as to whether the proposed accreditation body would offer the best solution to help bring simple products to market and recommend that the feasibility of established commercial accreditation bodies be explored alongside the current proposals.

In addition, we believe that further consideration should be given to the Money Advice Service assuming the independent accreditation role rather than simply providing support as suggested.

AER Review

The Interim report suggests that the methodology for the AER calculation should be reviewed from the standpoint of enhancing simple deposit comparability. Consideration should also be given to the compliance monitoring framework for the AER.

We are pleased to confirm that the BBA has commenced a review as suggested.

Our initial analysis suggests that the existing main AER guidelines², including the calculation methodology³, would produce a consistent and comparable AER for the simple deposit designs under consideration, where a specific interest rate is quoted.

The AER guidelines do not currently require the inclusion of an AER in promotions for deposits with tracker rates where the interest rate is quoted as a set margin above or below a reference rate, e.g. x% below Bank of England base rate. Simple deposits with tracker rates are envisaged under the proposals. One solution to achieve a comparable AER disclosure for simple deposits with tracker rates would be to derive a proxy specified rate given the prevailing benchmark rate (e.g. proxy specified rate = current base rate +/- x%).

We intend to report further on this matter to the Simple Financial Products Steering Group in due course.

Consultation

We have set out our detailed responses to the consultation questions in the attached appendix.

We accept that the banking industry must work hard to regain consumer trust and the simple products initiative provides an opportunity in this regard. We welcomed our close involvement in the work which Carol Sergeant has led to date and intend to remain fully engaged with this initiative as it moves through this consultation to the next phase.

² <http://www.bba.org.uk/media/article/code-of-conduct-for-the-advertising-of-interest-bearing-accounts>

³ <http://www.bba.org.uk/media/article/calculation-of-the-annual-equivalent-rate-aer>

We trust that these comments are helpful.

A handwritten signature in black ink, appearing to read 'P. A. Tyler', with a horizontal line underneath and a small flourish at the end.

Peter Tyler
Policy Director, Retail
British Bankers' Association

Appendix

Recommendations and Consultation Questions

Chapter 5 Simple Financial Products Principles

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

Yes, we agree that a set of high-level principles is necessary to demarcate the parameters of a simple financial products regime and to steer the design of eligible simple products.

We would need to understand how an independent accreditation body would interpret/amend the simple product principles over time. It would be important to establish a common understanding on interpretation of the principles in the public domain.

The accreditation body should only accredit products against the specific product design features and not against the principles. Principles could be referenced when developing future designs for other product types. If the accreditation body wants to change or reinterpret the principles, we suggest there should be a transparent process for doing so, including appropriate industry consultation.

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

The proposed principles appear appropriate given the target market and objectives for simple products.

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

We agree that this could prove an effective approach to ensuring equivalent treatment of new and existing customers, whilst allowing providers some flexibility in their simple product propositions and distribution strategies.

One implication of this proposal is that firms could never take products off-sale and replace them with something else. There are sensible customer reasons why products sometimes need to be taken off-sale and there may also be regulatory reasons for doing so given the regular product reviews which the FSA requires firms to undertake. Also, it seems unlikely that the PRA would support a firm in making 'forever' guarantees about a product – that could cause financial instability for firms, given past examples such as Equitable Life.

It is therefore important that if firms are to provide simple products, that they are not constrained from responsible product withdrawals, when necessary.

With respect to Simple Deposits, the stipulation of one product type, per brand, per channel would mean that providers would have to offer equal pricing between new and existing customers. Such restrictions on interest rate management may make it difficult for providers to offer Simple Deposits priced at levels which will be attractive to customers, weakening public perception of the products and undermining the 'Simple Products' brand.

Moreover, there would need to be a good fit between the sales process for simple and non-simple 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?

Yes, we agree that the initial set of simple products under consideration represent an appropriate starting point on which to focus further work and customer research in particular.

Simple deposit and life protection products have the potential to address a shortfall in the target market's provision against priority financial needs.

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

Whilst the product design has had customer engagement in mind this is no guarantee that this alone will be sufficient to encourage customers to buy the products which are designed for execution-only distribution.

Simple deposits which do not include introductory bonuses present a challenge for providers to extol the benefits to customers of choosing a simple product over a product with a higher introductory rate.

This may also extend to a comparison with non-bonus rates. The lack of flexibility for providers to differentiate pricing for new and existing customers, resulting in any rate increases being passed on to the existing customer book, could result in simple products being offered at a lower rate than existing non-bonus products.

We believe that life cover is already a relatively 'simple' product and would be cautious in identifying numerous provisions that can be stripped back at this stage. Guaranteed Insurability Options is a potential candidate, but taking away terminal illness, waiver of premium or terminal illness benefit could diminish the support provided to consumers (on a product that is to be purchased as a non-advised basis).

We also believe there is an opportunity around life cover and this consultation to underline the need for more simplification and improvements in the claims process. The idea of moving to a 'nomination basis', short cutting the probate process, is one which we support – and believe the simple product review could help promote.

It is now essential that the proposed consumer research validates the products identified from both demand and supply side perspectives.

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

We are concerned that the proposed simple income replacement product does not meet the simple product principles and is too complex in its design.

We suggest that the product is revisited after the simple savings and life products have been launched. Further work should be supported by consumer research on how the product would meet customer needs.

Also, the changing state benefits landscape, in the run up to the planned launch of Universal Credit in October 2013, may make it more challenging to ensure via the sales process that customers would not be penalised by a reduction in benefit levels as a result of having purchased this protection.

There is a real need for wider consumer engagement and the industry could play a key role by, for example:

- providing annual benefit statements confirming the cover customers currently have in place and highlighting where to go if their needs have changed and/or advice is required; and
- 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.

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

Please refer to our response to Question 6 above.

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?

We support the creation of a simple products badge in principle and that this should convey 'ease of understanding' and 'access' to consumers rather than attributes relating to price or value. Again we emphasise the importance of testing this with consumers via research.

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 agree that independent accreditation of simple products would help to underpin consumer confidence in the products brought to market under the simple products 'badge'.

However, we are concerned as to whether the proposed accreditation body would offer the best solution to help bring simple products to market.

We believe that further consideration should be given to the Money Advice Service performing this role.

In addition, established market-based product assessment services such as Defaqto⁴ and the Fair Banking Foundation should also be considered alongside the current proposals.⁵

If a new independent body is created consideration could be given as to whether this could be subsumed into the broader regulatory framework once simple products had been established.

It will be important that the simple financial products initiative is taken forward alongside other relevant regulatory initiatives such the FSA's approach to product governance and guidance on selling incentives.

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

If the FCA is not to act as the accreditation body then it will be critical that the regulator sets out with clarity its supervisory approach for simple products, including expectations on the sales process and the fit in with other products in the provider's range.

We remain concerned on potential mis-selling risks given that simple products may not provide customers with the best possible outcome from the products available on the whole market. Would this give a customer grounds to argue with hindsight that they have been mis-sold the simple product?

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?

Ongoing customer research could be supported in principle subject to scope; cost and ownership; although this might best be undertaken by either the FCA or Money Advice Service to ensure wider market developments are fully taken into account.

Ends

British Bankers' Association

⁴ <http://defaqto.com/about>

⁵ <http://www.fairbanking.org.uk/>

Sergeant Review of Simple Financial Products: Interim Report Consultation

A Response by the Building Societies Association

1. The Building Societies Association (BSA) welcomes the opportunity to respond to the Sergeant Review of Simple Financial Products: Interim Report Consultation.
2. The Building Societies Association (BSA) represents mutual lenders and deposit takers in the UK including all 47 UK building societies. Mutual lenders and deposit takers have total assets of over £375 billion and, together with their subsidiaries, hold residential mortgages of £245 billion, 20% of the total outstanding in the UK. They hold more than £250 billion of retail deposits, accounting for 22% of all such deposits in the UK. Mutual deposit takers account for 31% of cash ISA balances. They employ approximately 50,000 full and part-time staff and operate through approximately 2,000 branches.
3. The BSA and several of our members have participated in the Review to date and, as such, we have helped to frame the proposals set out in the Interim Report.
4. The Interim report is helpful in articulating clearly the vision for the simple financial products initiative; putting forward straw man proposals for the shape such products may take; and setting out plans for future work in this area.
5. We support the rationale for the simple financial products initiative. It is clear that there are significant cohorts of consumers who do not make adequate financial provision for their short-term and longer-term needs. There does also appear to be evidence that some consumers are dissuaded from addressing their financial requirements by what they perceive to be the complexity of the markets for financial products. So the development of a suite of simple products could help address that and assist in engendering increased engagement leading to greater financial resilience among these groups.
6. One of the product areas selected for the Review - ie cash deposit accounts - might be seen as a fairly soft target, in that virtually all deposit takers currently offer accounts that meet many of the criteria proposed in the Interim Report. But products that have these characteristics tend not to be nearly as popular as other products, such as those that pay introductory bonuses. One of the key challenges for the initiative will be in persuading consumers to demand a simple product rather than one that has ostensibly more attractive features, such as a savings account that pays a higher rate of interest. Without such customer demand, simple products are unlikely to be viable - or effective in meeting the objective of increased take-up of financial products.
7. This points to the importance of further consumer research in order to inform the further development of the products under consideration, including how to stimulate demand for simple products compared to other products on the market. As is noted in the Interim Report, simple products will likely need to be underpinned by strong branding and the consumer research should help to frame this.

8. In regard to the governance arrangements, we acknowledge that some form of independent accreditation would help to bring necessary credibility to the simple products scheme. However, we remain to be convinced that the accreditation body needs to be formed from scratch as there are existing organisations, such as the Money Advice Service and commercial accreditation bodies, independent of the industry, which might perform this role.

9. There will also be a need for the Financial Conduct Authority to set out its attitude to simple products and its expectations of firms in regard to the sales process, given that simple products are intended to be “good enough” and not necessarily “best”.

10. The BSA has agreed to review, together with the BBA, the application of the rules for the Annual Equivalent Rate (AER) to simple products. The AER is governed by the BBA/BSA Code on the Advertising of Interest-Bearing Accounts. We intend to present our findings to the simple products review in time for these to be taken into account in the final report.

11. The BSA and our members look forward to participating in the further stages of the Review and in assisting to make the initiative a success for consumers and firms alike.

Building Societies Association
12 October 2012



Response to the Sergeant Review of Simple Products: Interim Report

October 2012

About Citizens Advice

The Citizens Advice service provides free, independent, confidential and impartial advice to everyone on their rights and responsibilities. It values diversity, promotes equality and challenges discrimination.

The service aims:

- to provide the advice people need for the problems they face
- to improve the policies and practices that affect people's lives.

The Citizens Advice service is a network of nearly 400 independent advice centres that provide free, impartial advice from more than 3,500 locations in England and Wales, including GPs' surgeries, hospitals, community centres, county courts and magistrates courts, and mobile services both in rural areas and to serve particular dispersed groups.

In 2011/12 the Citizens Advice service in England and Wales advised 2 million people on nearly 7 million problems. Debt and welfare benefits were the two largest topics on which advice was given.

Sergeant Review of Simple Financial Products

Below we have responded to the relevant consultation questions on which we have a view.

Chapter 5 Simple Financial Products Principles

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

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

The proposal for a set of high-level principles is welcome and we agree with this approach.

We agree with the proposed principles. Although beyond the remit and scope of the Sergeant Review, we believe that the principles should apply to all financial products, not just those badged as 'Simple Products'. It is hard to see any legitimate reason why any financial product should not meet all of the eight principles. The fact that the principles are needed at all implicitly calls the recent policies and practice of the financial services industry into question.

It would be useful to consider the FSA's work on financial incentives for sales staff as our previous experience with basic bank accounts suggests there may be issues around up-selling or even mis-selling when consumers seek to open basic products. At present, we receive evidence of clients trying to open a basic bank account but instead being talked into opening a packaged bank account which incurs a monthly fee. We have reason to believe such sales behaviour is driven by financial incentives. We would be concerned that the same dynamic may occur with Simple Products unless steps are taken to prevent it.

It would also be helpful to consider whether to specify access criteria for the Simple Products and the extent to which the products are profitable for firms. While we recognise that firms will need the products to be economically viable, there are a number of ways in which their viability could be assessed. We would expect that this should be as a whole across all accounts rather than for each individual account. Otherwise, individuals who do not represent a reasonable level of profitability could find themselves excluded from access to the products, undermining the principles behind the whole initiative.

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

From our point of view it would be simpler and easier for consumers to understand if each firm were limited to one issue of each Simple Product per brand, which would be the same regardless of which channel it was purchased through.

People who don't have access to the internet, or are uncomfortable using it for financial transactions, could end up getting a worse deal than people who are happy to operate their account via the internet. Allowing such a situation to develop seems to run counter to the intention behind the Simple Products initiative.

It would also be difficult to explain clearly to consumers that each firm would offer one version of each type of Simple Product but that prices and terms and conditions may vary depending on how you apply for and purchase it. Not all firms would take the same approach to varying the product by channel and this would create a further layer of needless complexity, particularly when comparing products between firms.

Given the intention that Simple Products should address the needs of consumers rather than the interests of firms we believe that having one issue of each product type per brand is the correct approach.

Chapter 6 Simple Financial Products

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

The initial suite of products is appropriate as a starting point but we would expect further products to be added in due course. One particular product we feel would benefit from inclusion in the Simple Products scheme is a basic bank account.

There are significant issues in the basic bank account market at the moment which call its future viability into question and have seen banks appear to compete to make their respective products less attractive or less easily accessed. For example, RBS Group have withdrawn access to the LINK ATM network for their basic bank account customers and only Barclays will offer an account to undischarged bankrupts. Customers in financial difficulty also regularly report being turned down by multiple banks.

The catalyst for the development of basic bank accounts was similar in theme to the Simple Products initiative, namely a desire to address the needs of financially excluded consumers which existing products were not meeting. This makes Simple Products a natural home for a standardised basic bank account.

This would provide a number of advantages over the current situation, not least that banks would be unable to ‘compete’ to make their accounts less attractive than their peers’. This would help address the current market conditions which have created a concentration of basic accounts with those banks which have more socially responsible access policies.

Access to a basic transactional account is arguably of far greater importance than access to the product types proposed for the initial suite of Simple Products. Increasingly, benefits and wages can only be paid into a bank account and the only way to access the best deals on utilities and help avoid the poverty premium is by monthly direct debit. To a large extent, a transactional bank account with facilities such as a debit card and the ability to pay direct debits is an essential service, yet many people are excluded from opening them. We recognise that some people will choose not to operate a bank account but at a time when it is next to impossible to participate fully in the economy without a bank account it is entirely counterproductive not to have a universally available basic account.

Chapter 7 Endorsement

Question 8: Do you agree with this approach?

Yes, an endorsement approach brings a number of advantages if, as proposed, the Simple Products brand is backed up by an independent accreditation process with the criteria for earning accreditation clearly set out. In effect, it takes product design out of the hands of the firms providing the products and – in theory – places them with an organisation with the best interests of consumers at heart both symbolically and substantively.

Chapter 8 Governance

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

Yes, in order for the Simple Products brand to have any meaningful value it must be awarded through a formal, independent accreditation process. The development of additional Simple Products would also require the same independent consideration that has gone into the development of the proposed initial products.

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

Yes.

Research Recommendations

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

Yes. There is a risk of unintended consequences when intervening in a market even as tightly regulated as financial services and it would be highly desirable to accompany the scheme with ongoing research to monitor the impact of Simple Products from both a

supply-side and demand-side perspective. Such research could also be used to build a case for additional products to be developed.

Consumer Credit Counselling Service - Response to the Sergeant *Review of Simple Financial Products* interim report

Introduction

The Consumer Credit Counselling Service (CCCS) is the UK's largest specialist provider of free, independent debt advice. In 2011 our free helpline and online debt remedy tool helped 370,000 people deal with their debt problems.

CCCS is also the largest charitable provider of debt management plans (DMP), having introduced this essential debt remedy to the UK in 1993. Our DMPs now support over 120,000 people to budget, regain control of household finances and make sustainable and affordable repayments to their creditors. In 2011 these repayments to creditors totaled £311 million in respect of £3.7 billion of debt.

A key aim of our service is **moving people on from debt**; helping people to get over the crisis and get their finances under control so they can plan for the future.

Research commissioned by CCCS in 2011 estimated that some 3.2 million households were in financial difficulty and another 3 million were at risk of falling into financial difficulty. The research also estimated that of those 6.2 million financially vulnerable households, 4.3 million had no savings and 1.1 million had savings under £1,000 – well short of the £5,477 rule of thumb emergency savings buffer for median income households set out in the Sergeant Review interim report.

CCCS clients tend on average to be those median income households; with an average gross household income of nearly £21,000 in 2011. So we believe that there will be a very close overlap between many of our clients and the target groups for simple financial products.

We warmly welcome this interim report, as we believe that the *Simple financial products agenda* has the potential to help our clients in three main ways:

- For some of our clients, mis-selling of credit, current accounts, insurance or other financial products has contributed to the financial difficulties they have faced. So we hope that simpler products can help to deliver better outcomes (or at least fewer bad outcomes) to some consumers entering into financial services markets
- The average unsecured debt level of CCCS clients was a little over £20,000 in 2011. Many of our clients have been dealing with a heavy debt burden for years. So we hope that the simple financial products agenda might help to

influence peoples' financial behavior in the future by giving more emphasis to saving and less to credit. This may help to prevent or at least reduce the severity of some debt problems in the future.

- In 2011, CCCS clients on a debt management plan paid on average of £215 per month back to their creditors. When the debts are finally paid down, these households will have free disposable income that could help towards provision for future financial needs. We hope that people getting free of debt will be helped to build up savings by simple products.

As a result CCCS welcomes this interim report and the work contained in it to help consumers plan for their financial needs. In particular we note the report's mention of a possible role for community groups and advice organizations to help consumers along the way. As an debt advice charity helping people in the simple product target group, CCCS would be very happy to work with the financial services industry on this aim.

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

CCCS agrees that there should be a set of high level principles. Given that these products will be presented to consumers as a sort of 'safe harbour', and given that they will be sold without advice, the principles will need to be very robust in pre-empting and preventing possible detriment arising from the products or the sales process around the product either directly, or indirectly through their relation to other products.

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

Our brief initial comments on the proposed principles would be as follows:

- We would broadly support the eight principles set out in chapter five.
- However we believe that principle four might be amended to ensure any exclusion clauses do not contain a potential for consumer detriment. This may become more relevant if the simple product range is expanded. For instance exclusion clauses in payment protection products (such as mental health exclusion clauses) caused significant detriment for some consumers that would not be mitigated by clearer explanations. Indeed given that simple products will be non-advised sales, the principles need to be very careful not to rely too heavily on explanation (rather than good product design and governance) to ensure the right consumer outcomes.
- We support the intention of principle five. However it is not clear whether the principle relates only to the simple product, or to other products non-simple products meeting a similar need as well where these are mentioned in the same sales conversation. It is also not clear whether the notion of a clear sales process is centred on the process or the consumer. Different consumers may have different needs and requirements for help in understanding the nature and features of a product. So a sales process that looks straightforward in a generic sense may not meet the needs of some groups of consumers. Firms may need to think about the needs of different groups of consumers to ensure the sales process is straightforward in a way that makes simple products accessible for all.

Building on these points we believe that the principles for simple products might need to include provisions to ensure the following:

- Simple products must contain no ‘bear traps’ that could cause detriment for any groups of consumers – any emerging evidence of detriment will kill the concept. In which case we believe that the principles should include reference to something like a ‘detriment audit’ of both the simple product and issues around the product (particularly if the simple product range expands to more complex needs). As an example, the paper highlights how consumers could face a dilemma between getting a ‘best but changeable’ rate savings product (perhaps as a result of introductory rates) or a steady rate with a simple product? If there is a trade-off here, would a ‘detriment audit’ identify this as a service issue that highlights the need for a firm to be pro-active to help clients avoid losing out when a rate changes.
- Simple products need to consider the accessibility of different products for different groups of consumers. As highlighted above, sales processes need to ensure the consumers who may require additional support, explanations or information in particular formats can get this help. Here we note that the design principles suggest that firms may make different charges to products sold through different channels. We can see the point of this, but would argue that the principles should also require firms to ensure that no group of consumers (and particularly those defined as having protected characteristics in the Equality Act 2010) are disadvantaged by this.
- At chapter six, the paper outlines that a key function of simple products is to offer fair value. However this key aim does not seem to be expressed in the principles. How will firms (and the accreditation body) go about assessing fair value in a standard way (in absolute terms; in comparison with other simple products and in comparison with non-simple products for instance) and how will this concept be communicated to consumers?
- Finally we believe that the principles might include more reference to broader product governance to pick all these issues up.

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

CCCS broadly supports this idea, subject to the point above on ensuring that groups of consumers with particular characteristics are not disadvantaged by an inability to shop through a particular channel.

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

CCCS broadly agrees with the initial suite of simple products.

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

On simple saving products we have the following brief comments:

- Paragraphs 6.12 and 6.13 state that providers should be able to determine the method of deposit and withdrawal for their products. As highlighted above, we believe that providers will need 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.

- Paragraph 6.21 states that providers should not be required to pay the same interest rate over different channels. As highlighted above, providers should ensure in their product governance that no group of consumers are directly or indirectly disadvantaged by this.
- We agree that the possible trade-offs between a simple product and a product with an introductory rate will need to be communicated clearly. There is a potential danger of 'vanilla mis-sale' where a simple product is not the best option. However, it is not clear what the consumer protection safeguards on this will be.
- We welcome the point raised in 6.24 that firms should seek to develop products that reduce the need for consumers to monitor and switch (although switching should be easy). This is a good point.

On simple Life Cover we have the following brief comments:

- We understand that some providers might wish to add additional features free of charge as a 'competitive' feature. It might benefit consumers if this were possible, so long as this did not complicate price comparisons.
- 6.57 suggest that providers might signpost consumers to additional features at the point of sale. However this raises a concern about whether the simple product badge could be mis-used as a bait to lure consumers into a conversation to cross sell other products. The principles may need to consider how to ensure that consumers who expressly ask for a simple product (or who enter into a conversation as a result of a simple product promotion) are not sold something else that is not suitable. We have seen problems like this where consumers asking for basic bank accounts have been sold unsuitable packed accounts that caused detriment.

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

CCCS agrees with the conclusions of the paper that the Simple Income Replacement Product raises more difficult challenges about ensuring that the product is suitable, the level of benefits correct and so on.

We agree that, pending final regulations on Universal Credit, assessment of the interaction with means tested benefits might be difficult. We are sceptical that benefit entitlement checking tools will provide an answer without input and advice from providers in the sales process.

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

CCCS agrees that there is a need to encourage consumers to consider their need for income protection and that a simple (or simplified / standardized) product may help to do this. However we are not yet clear how consumers will be adequately protected by a non-advised simple product sales process.

Consultation question 8: Do you agree with this approach?

CCCS broadly supports creation of a simple products badge. But it will be imperative that consumers are able to trust and rely on this badge.

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

CCCS agrees that there should be a formal, robust and independent accreditation process to ensure that consumers can trust the simple product badge. But accreditation should not focus on the product in isolation; we believe there will be a need for the accreditation body to consider a provider's simple product or products in the context of their wider sales and product governance.

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

Subject to the points raised above, CCCS broadly supports the approach to accreditation outlined in the report.

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

CCCS agrees that on-going consumer research will be essential to the success of the simple product idea.

Darlington Building Society

I have pleasure in enclosing the feedback from Darlington Building Society

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

The Report states that introductory offers should not be part of simple products. We agree with this stance.

The Report states that simple products should be easy to compare. The theory of this is sound, however, in practice customers will end up trying to compare simple products against ordinary products. This situation will be made worse because you propose that simple products should be non-advice so the customer will not have the option of employing someone to carry out the comparison on their behalf.

You state that providers will compete on price. This will provide a clear advantage to the larger providers who will be able to use economies-of-scale to drive down costs.

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

The Principles are logical, however, they are only clear once the background notes have been read. Customers are unlikely to read the background notes, this needs to be addressed.

Principle 8 has the potential to confuse customers. Where the product has not changed any annual contact is more likely to be an up-selling exercise. Likewise the fact that the savings account utilises a passbook should be sufficient to dispense with the requirement for an annual statement.

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

Section 6.25 states that limiting products to one per distribution channel and one per brand will help to ensure that customers receive equivalent treatment. This is not true. Some banks and building societies have 6 or 7 brands which they use to preserve margin. Firms should be restricted to one simple product per Group.

Chapter 6

Question 4 Do you agree with this initial suite of simple products?

In Section 2 you identify target market segments. This analysis would have benefited from qualitative questions. For instance if a person did not have a savings account – what reasons were given for not having a savings account. This is fundamental to the whole process, after all unless that question is answered, the concept of Simple Products is simply “a solution looking for a problem”. Likewise within that section it is worth knowing the interactions; for instance what proportion of the population have sufficient savings but insufficient life cover?

The statement in 2.18 that retired people are unlikely to require life insurance seems to be counter-intuitive bearing in mind the emphasis placed on this market by certain large insurers.

Question 5 Do you have any comments on product design?

Section 6.23 states that “price, service quality and brand will be the only areas for competition.” In the past a number of firms have picked-up a reputation for poor service quality; however, they continue to take market-share simply by using their economies of scale to compete on price. The three areas mentioned by you are not equal; price will generally be the highest priority for a customer.

You state that simple products should help to build trust and confidence in the financial services industry. This seems to be too simplistic a point-of-view. Trust needs to be re-built over time and requires the support of people inside and outside the sector.

On page 6 (E13) you seem to contradict your argument by stating that adding another layer of products will simplify the marketplace. Within that same paragraph you state that the language used can be confusing; we agree with this point of view, however, a great deal of the instances of confusing terminology has come from the Regulator, for instance Lifetime Mortgages, real time financial promotions, etc.

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

Question 7 Can this product be made sufficiently straightforward to qualify as a Simple Product?

The working filter mentioned in 2.21 ignores the more relevant question: “Does your employer continue to pay your salary when you are sick? If so, for how long?”

There are a number of potential problems posed within the Report. All of these point to the view that this cannot be a Simple Product. For instance the product is unlikely to comply with Principle 4.

There are too many areas in the design of this product which would allow Claims Management Companies the ability to exploit the product.

This product has become too tainted to be sold as a Simple Product – changing its name from PPI to Simple Income Replacement will not change that fact.

Chapter 7

Question 8 Simple Products Badge – Do you agree with this approach?

Naturally this has been tried before with both Stakeholder Products and CAT standard products. These initiatives were both discarded – there is nothing throughout the Interim Report to suggest why Simple Products will succeed where Stakeholder and CAT standard products failed.

Chapter 8

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

No, see answer to Question 10. It should be remembered that the Regulator has already stated an intention to be more pro-active in the area of product design – before products are launched.

If accreditation was to be introduced this should be based on the number of accounts to be sold. Otherwise a single payment per product would clearly favour larger firms who would be able to spread the cost over more accounts.

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

We have been concerned about the creeping cost of regulation over the past 5 years. The Financial Services & Markets Act was supposed to cut the cost of regulation, instead it has risen, and continues to rise each year. Adding the cost of funding the Money Advice Service was another example of this creeping cost of regulation.

This situation would be made worse if the Money Advice Service took on these additional responsibilities.

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

On page 5 you list the reasons for lack of engagement with the financial services industry. There are three other significant reasons for this lack of engagement:

1. Since the financial crisis in 2008 it has become fashionable for politicians to demonise financial services firms, especially the banking sector. Naturally this spills-out into the wider financial services market and members of the public feel that they cannot trust any financial services firm.
2. The RDR has had a significant effect on the market. Many small IFA firms who were providing advice for small investors have either exited the market or have repositioned their business to cater for the high-net-worth investor.
3. Government intervention has assisted the decline of the final salary pension scheme. This has moved the risk of providing an adequate pension to the employee at precisely the time that interest rates are at an all time low. Naturally employees blame the financial services firms.

Section 3.14 states that many people would be more comfortable seeking product information from community groups. This is a radical change from how the present market works and there is no attempt to show how this change would be implemented.

The Key Drivers for Building Trust and Engagement are sensible, however, these are true of any product, they are not exclusive to simple products. The review should also consider mortgage regulation – has the introduction of a comprehensive KFI really encouraged customers to shop around?

The section Raising Awareness and Capability seems to completely ignore the role of advertising by product providers. Throughout the Review the role of the Money Advice Service is over-played. The Money Advice Service is not the first point of call for most people; you ignore the part played by Best Buy tables in the Press along with internet comparison sites. Simple Products would be tracked by Moneyfacts and this would be printed by the Press.

You contend in 4.0 that customers going to Product Providers are already aware of their needs. In reality they are more likely to be reacting to product advertising by the Product Provider.

In section 4.13 you state that relationships could be developed with intermediaries such as housing associations. Again, this favours the large product providers who will be able to devote resources and cut margins to satisfy such intermediaries.

David Dodd - Chief Executive

1 October 2012

Responses from Debt Advice Foundation to the Consultation on Simple Financial Products

Consultation Q1 (do you think that there should be a set of high-level principles?)

Debt Advice Foundation agrees there should be a set of high-level principles and strongly endorses those that are set out. Encouraging consumers to make prudent personal finance choices, such as establishing suitable contingency provision, can help reduce the likelihood of instances of income shock resulting in unmanageable debt.

Consultation Q2 (do you have any comments on the proposed principles?)

We believe it should be made clear who is going to determine appropriateness and affordability of Simple Financial Products such as insurances. The inappropriate use of a Simple Financial Product could be every bit as damaging as any of its more complex counterparts.

Consultation Q3 (do you agree that firms should be limited to one issue of each Simple Product type, per brand, per channel?)

We have no commercial opinion either way on this – but looking back over our responses, we believe two points which were developed in response to Q9 (Governance) may be relevant to this subject, so we preview them here.

We strongly believe there is a requirement to police the inappropriate use of the logo on promotional materials, so lenders are not tempted to use it as a tool to bolster brand credibility. For example, should lenders be allowed to use the logo on the front of generic promotional literature? This should be spelled out clearly at the outset.

In an associated point, it is also vital to make sure the badge is not used as a marketing tool for the purposes of attracting customers for cross-sell or up-sell. For example, should companies be allowed to promote alternative financial products to customers that have chosen to engage with a Simple Financial Product? We note the intention to allow the continuance of existing underwriting policies for life cover – would this result in an unreasonable proportion of potential Simple Financial Product customers being offered more complex alternative products?

Consultation Q4 (do you agree with this initial suite of Simple Products?)

Yes

Consultation Q5 (do you have any comments on products design?)

The target market for Simple Financial Products has been defined based on net income. In the charity's experience, propensity to save is not driven solely by level of income (it is largely a by-product of it) but by an ingrained personal attitude to saving and borrowing. A higher average net income does not necessarily translate into a greater level of savings engagement; in fact it is the higher earners with higher average levels of essential expenditure than would benefit most from contingency provision and income replacement cover.

As a general point on product design, it is vital that the requirements of the Simple Products branding do not themselves become cost prohibitive barriers which result in only the big lending institutions being able to afford to offer them. As a simple example, the cost incurred in reprinting and distributing promotional literature is probably less of a concern for a large high street bank than it is a local credit union.

As mentioned in our response to Q 2, we believe it should be made clear who is going to determine appropriateness and affordability of Simple Financial Products such as insurances. The inappropriate use of a Simple Financial Product could be every bit as damaging as any of its more complex counterparts.

Consultation Q6 (do you have any comments on the proposed design for a Simple Income Replacement Product?)

As in our answer to Q2 & Q5, we believe it should be made clear who is going to determine appropriateness and affordability of Simple Financial Products such as insurances. The inappropriate use of a Simple Financial Product could be every bit as damaging as any of its more complex counterparts.

Consultation Q7 (Do you think this product can be made sufficiently straightforward to qualify as a Simple Product?)

We do not wish to comment on this commercial question.

Consultation Q8 (Do you agree with this approach?)

As in our response on product design, it is vital that the requirements of the Simple Products branding do not themselves become a cost prohibitive barrier which results in only the big lending institutions being able to afford to offer them. As a simple example, the cost incurred in reprinting promotional literature is probably less of a concern for a large high street bank than it is a local credit union.

We would also like to suggest that debt charities are obvious candidates to help build awareness in the early stages of the kite mark's development. Our charity for example, receives over a quarter of a million website visits a year and a sizable proportion of them are from people that are deemed to have money management issues (including insufficient provision for contingencies) rather than being technically insolvent and unable to meet their credit commitments. Signposting of Simple Financial Products along with instruction on how to engage with them would prove a useful tool for the sector.

Consultation Q9 (Do you agree there should be a formal independent accreditation process?)

Yes

Consultation Q10 (Do you agree with the proposed approach to accreditation?)

We strongly believe there is a requirement to police the inappropriate use of the logo on promotional materials, so lenders are not tempted to use it as a tool to bolster brand credibility. For example, should lenders be allowed to use the logo on the front of generic promotional literature? This should be spelled out clearly at the outset.

In an associated point, it is also vital to make sure the badge is not used as a marketing tool for the purposes of attracting customers for cross-sell or up-sell. For example, should companies be allowed to promote alternative financial products to customers that have chosen to engage with a Simple Financial Product? We note the intention to allow the continuance of existing underwriting policies for life cover – would this result in an unreasonable proportion of potential Simple Financial Product customers being offered more complex alternative products?

Consultation Q11 (Do you agree that ongoing and systemic consumer research is required to support the Simple Products Initiative?)

Yes

Linda Isted
Communications Manager

on behalf of

David Rodgers
Managing Director
Debt Advice Foundation
Registered charity 1148498

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Defaqto Response to the Sergeant Review of Simple Financial Products October 2012

Chapter 5 Simple Financial Products Principles

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

Consultation question 1: Do you agree that there should be a set of high-level principles?
We agree with this proposal.

Consultation question 2: Do you have any comments on the proposed principles?
Principle 1 states that “Essential” product features are simply explained. The decision on what constitute “essential” features should be confirmed though both provider knowledge and consumer research.

If products are to be easily comparable between providers Principle 4 is very important to mitigate the opportunity for providers to produce multiple series of different ‘simple’ products with marginally different conditions for each, which would dilute the power of the Simple Products initiative.

Consultation question 3: Do you agree that firms should be limited to one issue of each Simple Product type, per brand, per channel?
We broadly agree with this proposal (see our response to Question 2 above). In practice this might raise a few issues for providers, so clarification must be given as to what constitutes a “channel”. For example a savings provider might want to have a 30 day wait period for postal savings accounts, but 30 day loss of interest for telephone based savings accounts. Would ‘branch’, ‘post’, ‘telephone’ and ‘internet’ count as separate distribution channels? There is also a potential issue with the savings products as proposed if this approach is taken to ISA and non-ISA versions of the same savings product (see our response to Question 5 below).

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 with this proposal.

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

The discussion document states a working assumption that each of the savings products would also have to be capable of being used within an ISA wrapper. This approach might counteract the comment in section 5.3 regarding limits of one product per channel. Cash ISAs are typically marketed a separate product from other savings accounts, and will have quite different terms and conditions. If providers are limited to only one simple product per channel they could be forced to only offer ISAs or non-ISAs as their Simple Product.

The interest restriction of ‘no tiered rates’ (section 6.8) may lead to an interest rate being offered that is less competitive than if tiered rates were allowed i.e. providers will depress the rate offered to ensure that the product remains profitable. Another potential consequence of a lower interest rate would be for Simple savings accounts to be less attractive to larger investment amounts, which could limit their appeal. Alternatively, providers may restrict the maximum investment so as to ensure that the Simple savings product fits more logically into their product portfolio.

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

At first sight the Simple Product is likely to appear anything other than simple to the uninitiated. It will be imperative in this to achieve standardization of terminology across the industry, with third parties such as the Money Advice Service providing Plain English explanations of the words and phrases used.

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

There is a danger that without sufficiently clear product information being provided, in the non-advised channel customers might buy a “simple” product which is actually not in their best financial interest, due to the interaction with any state or employer benefits that might be paid in the event of long-term illness. More consideration should be given as to how this information can be provided in a coordinated and meaningful way to allow consumers to make an informed choice.

In the advised channels the intermediaries may well shy away from using the simple products in favour of more tailorable products which they can flex to meet the exact needs of their customers.

If this product is to be provided in the non-advised channel there must be a very clear decision tree and signposting before purchase; in particular the customer must be warned before purchase to check the interaction with other potential benefits, or warned about the potential implications. This approach would have to be adopted by all providers of the Simple Product, to ensure consistency of approach.

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?

We agree with this approach. Defaqto’s Star Ratings for financial products illustrate the importance of signposting customers so they have at least an understanding of what to expect when they are purchasing a Simple Product. As noted in the report, there are a number of established ratings used in different industries and the use of a badge will help to establish and reinforce the Simple Products brand.

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 agree that there should be a formal independent accreditation process, to ensure consumers have trust and faith in the initiative.

Consultation question 10: Do you agree with the proposed approach to accreditation?
We agree with the need for a credible independent body to be responsible for the governance of the accreditation process.

We believe that it is possible to have a functional separation of roles within the body being proposed. The governance of the scheme, supported by a small secretariat, would decide on the products to include, the terms and conditions that constitute a Simple Product, and the marketing phraseology to be used in describing the products.

Defaqto's work over the past 10 years in maintaining comparative product data for the Financial Services Authority (and latterly the Money Advice Service) shows that a rigorous process for the accreditation itself could be easily put into place and managed by a third party. If the rules as to what constitutes a Simple Product are explicit, and the documentation contents are prescribed, this accreditation process would be relatively straightforward to manage and deliver.

From our experience of producing an extensive series of product Star Ratings, which are used by providers across the financial services market, it is likely that the accreditation process will also need to include the maintenance of a network of industry contacts for Simple Products, the management of a library of accredited materials, the issuance of the artwork for the Simple Products badge, the policing of the usage of descriptions around and placement of the Simple Products badge, and the invoicing and collection of the licence fees associated with use of the badge. All of this will require a clear audit trail to be created and documented.

Research Recommendations

Ongoing research is required to:

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

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

We agree, with the proviso that industry expert opinion should also be canvassed in areas where it is less likely that consumers will understand the subtle nuances of particular products (such as with the income protection market for example), to help balance and validate the consumer research findings.

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

8th October 2012

SERGEANT REVIEW OF SIMPLE FINANCIAL PRODUCTS - INTERIM REPORT

The ea Consulting Group welcomes this opportunity to respond to the questions raised in the above report covering the potential launch of a simple financial product regime.

By way of background, the ea Consulting Group (eacg) was founded in 1998. It was originally set up to address the issues of euro integration. Since this time it has expanded significantly into providing project and programme management services including a consultancy arm. Our clients include all the major banking groups, building societies and a number of leading insurers. The consultancy has offices in the UK, Australia, Hong Kong and Singapore. eacg is actively involved in the consultation processes associated with new regulation and has lobbied extensively on proposed UK legislation and European directives including PRIPS, MiFID-2 and IMD-2. Our experience with simplified products goes back to 2001 with the original Sandler Report and the ABI's own investigations into the use of saver agents. We have, of course, responded to HM Treasury on previous consultations concerning simple financial products recommending their adoption. We have also been a regular contributor to the RDR debate since it was announced in June 2006 and have advised a number of clients on retail strategy and simplified advice processes including the supervision of a basic advice pilot.

Whilst the detailed responses to the questions asked in the interim report are to be found in the appendix we believe it appropriate at this stage to provide some more general commentary on simple financial products. Firstly, the Sergeant Review is to be warmly commended for its approach and the comprehensiveness of this interim report. That being said, the proposals have taken the line of least resistance following the non-advised route and excluding all investment products. The lack of financial capability in the mass market sector is a very major hindrance in tackling both the savings and protection gaps. Our experience with basic advice revealed that few fully understood their pension entitlements or indeed any other workplace benefits. In discussion many believed such aspects were too

complicated. This situation is exacerbated by the current economic downturn where many are focused on pure subsistence rather than on any forward financial planning. Often traditional rainy day saving is a credit card. As recognised in the review text, public understanding is not helped by non-standardised nomenclature with term assurance for example being sold using a whole host of marketing names (eg family cover). Like-for-like product comparisons have been very difficult to achieve in the past but the adoption of Ronseal-type products should deliver significant benefits in this area to the consumer. Simplicity of design and benefits should prove excellent marketing features if providing value for money. As a long term project we should also not underestimate social media as a key channel.

As you will be aware, attitudes to saving are ambivalent with many hoping to save but being discouraged by low interest rates and the impact of inflation on the family budget. It remains to be seen if the pension reforms and auto-enrolment will significantly increase long term savings. Sadly, the downside of the RDR proposals appears to be that advice will become the province of the HNW and great faith is being placed on MAS to provide advice or at least guidance to the mass market sector. MAS has yet to prove itself as a viable means of delivering financial education to the masses. We believe that the workplace is a key delivery channel. Although job mobility is an issue and careers are no longer for life, it is thought that the workplace is often the best source of personalised financial information for employees (eg pension and protection entitlements).

Although stakeholder products have not in general proved successful undoubtedly stakeholder pensions and the RU64 rule have delivered cost benefits to the population at large. The Sergeant Review is wisely acknowledging the impact of competition legislation and the need for product providers to decide their own pricing policies. Although new legislation is being avoided, a RU64 type rule might be vital to promote the simple products regime in general as establishing its economic viability for product manufacturers is the key requirement for its longer term survival.

Some concern does exist over the use of the term "simple" as it might be inferred it reflects the type of the purchaser. In past reviews of the stakeholder regime we have recommended the adoption of the name "Peoples' Products" but note this branding has since been adopted by the Post Office. Consumer research should identify a suitable brand in due course but we prefer names including 'basic', 'standard' or 'essential' as they support the notion of simplicity and value for money. eacg has always been a supporter of a kite-mark or similar as clearly a consumer should welcome an assurance of having made a prudent purchase which is backed by a trusted endorser. Although the FSA has always been very reluctant to become involved in any simplified regime we do feel we must

recognise the circumstances that currently prevail. Consumer trust in the financial services is at an all time low. It is our recommendation that the accrediting body identified by the Sergeant Review should be part of the FSA (and subsequently the new FCA). The board expenses can be recovered in the normal manner through the FSA annual fees. It is thought that a kite-mark or badge directly promoted by the FSA is by far the most effective way to convince the consumer of the sound provenance of simple products particularly at their launch. Alternatively, they could be badged or branded as MAS-products with an obvious link to this advice medium. If the latter, then the success of simple products will be tied to the viability of MAS. This is both as a universal source of consumer generic advice and, of course, as an introducer of new business.

The reluctance on the grounds of complexity to include an income protection policy in the launch products is fully appreciated. Ultimately, it is essential that this type of product is simplified but it must provide the policyholder with an adequate level of cover to meet their needs, which will vary, at a competitive price. eacg very much welcomes the work being conducted by the ABI in this area.

The long term success of this initiative will be dependent on extending the range of simple products available through the non-advised route and the mass market consumer recognising and valuing the tag. Whilst investment products pose significant problems with both appropriateness and the treatment of risk it is hoped that a simple mutual product for longer term savings can be made available in due course. It is thought that product providers will be more supportive of the simple regime if it extends to include protection, savings and investment products. Restricting product providers to one type of each product available is valid as a profusion of offers will cause confusion to any financially unsophisticated consumer.

We believe that the responses to the questions raised are self-explanatory but if more detail is required please contact the author directly.

Yours sincerely,

Roger Davies

ROGER DAVIES BA ACIB APMP
Principal Consultant
ea Consulting Group

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SERGEANT REVIEW OF SIMPLE FINANCIAL PRODUCTS: INTERIM REPORT

Responses to consultation questions:

Chapter 5 Simple Financial Products Principles

Principles:

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

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

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

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

5 Straightforward and clear purchasing process for the consumer.

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

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

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

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

YES. We are in total agreement that a number of high-level principles should form the guidelines against which simple products proposals are assessed. This will provide ease of understanding for all parties.

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

It is obviously vital that the regime supports full transparency with all documentation in the vernacular. Ease of understanding, comparison and purchase are key goals for the simple financial products. There should be no surprises! Standardised product names (principle 3) validated by consumer research will aid cost comparisons. Essentially, the 8 principles are delivering the overarching principle that the customer is always treated fairly.

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

YES. We share the concern that too many offers will serve to confuse the consumer and make cost comparisons more difficult. As each product will carry two brands (the simple products badge and provider brand) this ruling will ensure that the simple product is given due prominence and is not diluted by its more general application.

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.*

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

YES: We are in agreement with the Steering Group that for the sake of simplicity the products to be considered for the mass market should:

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

Clearly product simplification, standardisation and benchmarking are the major issues and it is sensible at this stage that the proposals should not be dependent on regulatory changes. We must be mindful of the likely impact of the RDR and the role of the Money Advice Scheme (MAS). eacg believes that the mass market consumer will increasingly seek the use of online non-advised sales channels. As the three types of products identified already exist this should greatly ease their early launch. However, it is believed that the longer term viability of the regime is dependent upon extending the range to include a fixed term account, a simple income replacement product and hopefully an investment product. It is appreciated that the latter faces regulatory changes if offered through both non-advised and advised channels (eg appropriateness).

Q5: Do you have any comments on product design?

We recognise the importance of all the issues raised in the text. With no introductory bonuses and tiered rates it will be a significant challenge to make simple products attractive to the discerning consumer. This is especially so when savings rates are particularly low and eroded by inflation. Bank overdrafts or credit cards are seen by many as their source of rainy day savings. It is very important that any simple savings product be capable of being used within an ISA wrapper to optimise tax treatment although most gains are to be had by higher rate tax payers. Essentially, price is the primary area for competition although brand and quality of customer service can also be important. Most insurance policies are, of course, bought solely on price. We must also be mindful that the online channel has average to high usage among the majority of the target market which offers cost saving potential to providers and consumers. A low cost value range might become attractive to regulated advisers over time when seeking to develop a competitive fee-based tariff for middle income groups.

We agree that aspects of the fixed term account and regular savings account are inherently less simple than easy access and 30 day notice accounts. It is hoped, however, that they will feature in the simple product range in due course.

With regard to the simple life cover product we concur with the view that this should be a policy that pays out a lump sum on death with no bells or whistles. This should be a Ronseal-type product. eacg personnel have been involved in several exercises seeking to simplify the underwriting process. Increasingly compliance functions have been worried about treating customer's unfairly if different forms of underwriting are available as higher prices are often incurred and re-insurers in general have not welcomed such initiatives. We do need to ensure that purchasers are not limited to those who are unable to find cover elsewhere with a fully underwritten product.

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

Unsurprisingly, eacg agrees with the Working Group and Steering Group on the desirability in the mass market for a simple income replacement product to be included in the simple products suite. The target market estimated at 12.2M households or 23.5M adults is, of course, substantial. Whilst the purpose of the income protection policies is readily understood we do recognise the greater complexity of the product in selecting different levels of cover. The

straightforward explanation of the features and choices available will obviously be key to consumer understanding. We prefer the descriptive label 'Income Insurance'. This is an area where we believe the workplace could provide easy access to such products for all employees. eacg welcomes the work to be undertaken by the ABI regarding income protection and it is hoped that a streamlined product can be developed in due course both fairly priced and meeting the needs of a typical mass market consumer.

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

YES. In association with the guidance provided by MAS to the consumer on the need for income protection it is hoped that a simple income protection product can be developed offering appropriate cover with the necessary flexibility. With regard to the impact of means testing we believe that a minimum income level should be calculated below which individuals should not purchase the simple product. The use of standard nomenclature and an improvement in general financial capability will aid the launch of such a product. Sadly, the latter will take time.

Chapter 7 Endorsement

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

Q8: Do you agree with this approach?

YES: As recognised by the Steering Group, endorsement schemes are widely used to help consumers identify products and provide them with the assurance that they meet expected standards. It is essential that consumer research be undertaken to verify all aspects of using the term "Simple Products" (and alternatives) and to test the effectiveness of the chosen endorsement badge in the marketplace.

Chapter 8 Governance

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

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

YES & NO: We acknowledge that none of the existing organisations fully meet the criteria set by the Working Group. Setting up '*a small independent accreditation body that would own and licence the badge but be serviced and supported by an existing body*' is, therefore, a practical solution. However, whilst the FSA firmly believes that this is an industry initiative and it traditionally shies away from any involvement in commercial activities we are in unusual times. Most commentators believe that the RDR in driving investment advice upmarket will impact adversely on the mass market. We must be cognizant that all the high street banks have announced the withdrawal of their network financial adviser sales forces. A simple product non-advised regime is essential to help fill this gap. eacg believes that a simple product endorsed by the FSA/FCA as the consumers' champion will give greater confidence to the population at large. It is thought that the mass market consumer will be suspicious of any accrediting body, however independent, as it will be seen as linked with the financial services industry and essentially a marketing ploy. We are already aware that the FSA/FCA is intent as a regulator on greater pro-activity including product intervention and it, of course, maintains close links with MAS. It is, therefore, ideally placed to fulfil this accrediting role. The importance of this issue cannot be underestimated.

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

See response to Q9. We are in firm agreement that simple products should be designed to meet essential, basic needs and to be non-advised products. eacg has in previous simplified products and RDR consultations strongly advocated the use of a kitemark or similar to help build consumer trust in a product and advice or guidance process. The early establishment of a badge with a strong brand is considered vital to the success of the new simple product regime. With over 2,434 savings products in the marketplace a powerful and recognisable symbol will be required.

We can see value in MAS supporting an independent accreditation board if adopted and in particular would wish to see MAS publish full details regarding the simple products available if consumers follow their guidance.

Chapter 9 Research and Consultation Questions

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”.*

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

We are in total agreement that further consumer research is required to:

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

All the above are crucial to the development of a regime that meets consumer needs and is economically viable. Our goal should be to develop a product range suitably badged and branded that all product manufacturers will wish to support and that all solvent consumers will wish to buy. As the Financial Secretary to the Treasury states in his foreword: “*Consumers need to be able to engage with this (financial) system with confidence and ease*”. The ‘simplicity dividend’ will be difficult to calculate but as a concept it has much anecdotal support. Consumer research has regularly shown that you can offer too much choice and it is a barrier to decision taking. We are also confident that simplicity will help build consumer trust.

Telephone: 020 7066 9346

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

12 October 2012

Dear Carol

Sergeant Review of Simple Financial Products: Interim Report

This is the Financial Services Consumer Panel's response to the Interim Report on the Sergeant Review of Simple Financial Products.

The Panel is pleased to have had the opportunity to support and contribute to the work of the Review. We want to continue our engagement with this initiative which we think has the potential to deliver positive, tangible outcomes for many consumers.

We support the key proposals in the interim report. Although there is further work to be done in areas such as accreditation, limitations on the number of simple products to be made available and the detail of the product criteria we would not expect resolution of these issues to delay the introduction of simple products. We urge stakeholders to move quickly to bring a range of simple products to market. The sooner this is done, the sooner consumers will become used to seeing the simple products badge and begin developing an understanding of what the badge means for them. The concept of first-mover advantage is perhaps over used, but we think there could be real advantages for firms who are willing to enter the simple products market, pick up on the consumer demand and make full use of the publicity that will surround the launch of the initiative.

We think a strong accreditation body and kite-mark type approval are essential to the success of simple products. With the right support and publicity we see a great deal of reputational benefit for firms that have simple products within their offering – and a strong incentive for retaining accreditation.

We would like discussions to continue at speed to resolve the apparent impasse around a simple income replacement product and we have made suggestions below for product designs that could facilitate progress. This is a sector of the market where we fear that the PPI mis-selling scandal might have deterred many consumers from purchasing a protection product that they actually need, causing yet more potential consumer detriment.

There has been discussion recently of the ‘simplicity dividend’. We agree that the availability of a limited selection of clearly described, simple products that meet a need and deliver what they promise could go some considerable way towards building consumer trust and confidence in the industry. The greater the level of trust, the more willing consumers will be to buy financial products.

Our comments on specific questions raised in the Interim Report are set out below.

Simple financial products principles

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

We fully support the use of a set of criteria based on the principles set out in the Report to design and accredit Simple Products. This is a transparent and workable way forward.

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

We would like to see Principle 8 go further and limit the changes that firms can make to the terms and conditions applying to Simple Products, or to prohibit them altogether. At the very least, no changes should be made that could impact on the product’s compliance with the simple products criteria without the prior agreement of the customer or the option to transfer without charge to another simple product with at least the same product benefits or outcomes. If changes are to be permitted, the “clear methods” for communicating with consumers should go beyond notification on websites or by e-mail, to accommodate the needs of those without internet access.

The Panel would like to see the provision of statements for consumers of Simple Products on a regular basis and at least annually – and regardless of the size of the balance on any savings accounts.

We would like consideration to be given to showing the impact of changes in cash-based illustrations, rather than only rates.

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

It is important that consumers are not faced with choosing between large numbers of Simple Products and the suggested limitation is vital. As the development of simple products moves forward there may be an argument for dealing with, for example, changes of interest rate on savings products by way of separate issues rather than changes to existing savings products, but we think further work needs to be done in this area and we would like to see this possibility tested with consumers. In addition, labelling should make it clear that interest on savings products is paid after the deduction of basic rate tax.

Simple financial products

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

We agree that the initial suite should comprise an easy access savings account; 30 day notice savings account; and life cover, preferably with an income replacement product added soon.

Q5: Do you have any comments on product design?

We have no specific comments on product design as such, but we thought it worth emphasising that there may well be products already available – particularly in the savings market - that could be adapted to meet the simple products principles and criteria relatively easily. It may not be necessary for brand new products to be designed and developed as part of the simple products initiative, providing scope for the proposals to move forward fairly rapidly.

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

The Panel feels the proposed design for a simple income replacement product complies with all the requirements for a simple product, whilst retaining crucial flexibility to allow for consumer choice. It is essential that consumers are allowed to 'wrap' privately purchased income replacement around statutory sick pay and employer's sick pay so that over-insuring is avoided. The proposed design allows consumers the choice of when the policy starts to pay benefits which means it can be tailored to start once employer's sick pay ends.

A choice of when benefits start to be paid, as well as a choice as to how long they are paid, also makes the product affordable for most people, meaning that even those on very low incomes should be able to afford some level of privately purchased income replacement.

We understand that the main reason an income replacement product has not been included in the initial suite of products is the concern that some people on low incomes might be disqualified from receiving means-tested state benefits should they possess private income replacement elsewhere. We can understand this concern as it would be untenable if those on low incomes would lose benefits they are entitled to because of purchasing a private insurance policy. However, it would be disappointing if this concern meant that a simple income replacement product was not developed, as this is arguably the most crucial insurance product for the vast majority of working people and the one that is least purchased. It is ironic that the very people who would benefit most from a simple, affordable, income replacement product are being cited as the main reason not to develop one.

The Panel therefore wishes to propose a solution to this problem. We propose that simple income replacement products carry an underlying guarantee as follows: should the policyholder become eligible for means-tested benefits because of sickness or disability, but is disbarred or the level of benefits reduced because cover under the policy would place them over the income limit for such benefits, then the policy is cancelled and all premiums paid refunded to the policyholder.

As an alternative the policyholder might wish to 'freeze' the policy and suspend payment of premiums until they are able to return to work.

This will provide comfort to product providers that consumers cannot 'mis-buy' the product and lose valuable benefits they are entitled to. It will also allow policyholders to decide whether they wish to receive benefits from the policy or means-tested state benefits. It should be remembered that in many cases the benefit paid out from the policy will exceed means-tested state benefits and consumers may wish to exercise choice in this area. We suggest that some work is undertaken to establish how many people might be in the position of losing means-tested benefits because of cover under an income replacement policy - or what level of income puts people into the 'danger' area. That way product providers will be able to cost the addition of the guarantee.

We suggest, however, that this cost will be minimal and if it means that a simple and affordable income replacement product can be safely purchased by consumers on all levels of income, then surely this is a small price to pay.

It should be remembered that the issue of disqualification from means-tested state benefits already exists in the current income protection market, so an underlying guarantee might be something that existing providers of income protection products might wish to adopt on all products.

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

Yes, we think this can be achieved and we would like the current issues to be resolved as soon as possible.

However, as with all simple products, what will be crucial is the language used in the marketing and policy literature so that potential purchasers have the information they need to make an informed choice as to the level of cover they need, when they wish the cover to start paying out and how long the cover should pay out for. With guidance, the Panel believes that most consumers should be able to negotiate the purchase of a simple income replacement product in a similar way to car, buildings and travel insurance - all of which have complex choices to make during the application process.

We believe that the Money Advice Service has a crucial role to play in helping consumers understand the choices they need to make with income replacement cover and we feel sure that suitable online 'calculators' and printed information leaflets can be developed that will help with this education.

Endorsement

Q8: Do you agree with this approach?

Yes. We support the development of a Simple Products badge and we think the key components set out in figure 7.1 of the Report form the right basis from which to take this forward. We are mindful of the comments in the Report about a badge not necessarily resulting in the purchase of a product, and the view that badges can sometimes seem little more than marketing tools. Nevertheless we regard a badge

as an essential identification marker amongst other similar products that will be available. Over time, particularly if the accreditation body is seen to be a strong name with consumer interests at heart, the badge could do a great deal to encourage consumers to buy Simple Products.

Governance

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

Yes, this is a key part of the process. An independent body should be formed that includes market practitioners, consumer representatives and probably an independent Chair. We agree that an organisation such as the Money Advice Service could deal with the administration of the independent body. This would be particularly useful if the Money Advice Service was also to provide information and signposting for consumers about simple products.

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

Yes. The process will have to be robust and swift to act in both accrediting products and removing accreditation if the need arises. The accreditation panel would, we suggest, need to be seen by consumers as a 'watchdog' and not a passive organisation or industry trade body. It will be important to ensure that the removal of a product accreditation is publicised in the same way as the granting of accreditation.

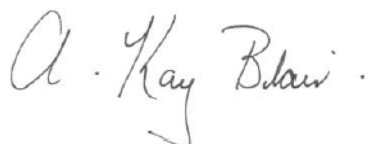
If the initiative is carried forward with the necessary support and publicity we would expect firms providing simple products to have the benefit of being associated with a trusted brand that has been approved by an independent body. If it is also clear that there could be reputational damage from a subsequent loss of accreditation firms will have an added incentive to ensure that products continue to comply with the simple products criteria.

Research recommendations

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

Yes, we agree. We would like to see a medium term plan rolled out for this research as soon as possible.

Yours sincerely

A handwritten signature in cursive script, reading "A. Kay Blair".

Kay Blair
Vice Chair
Financial Services Consumer Panel