



HM TREASURY

Simple financial products: a consultation

December 2010



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Foreword



If we are to improve security and opportunity for households, we need clarity and confidence in financial services. People need to be able to choose the right financial services product for their needs and be able to trust the market to give them a fair deal.

For many, financial services are confusing and this is not surprising when there are, for example, over 2,000 savings products on the market. A vast array of choice is not always a good thing; complexity can cause confusion and inaction. The Government has set out a clear strategy to restore confidence in the financial system and to encourage people to take responsibility for their finances, so they are better equipped to make the market work for them. We are reforming the system of financial regulation, setting up a new consumer protection and markets authority to act as a strong consumer champion. We have asked the Consumer Financial Education Body (CFEB) to deliver a national financial advice service. This will include a new financial healthcheck that will help people to take a holistic view of their finances. It will advise people how to manage their money better, the types of products they will need and where to get further advice.

While the healthcheck may advise someone to save, and show them how they can do it within their budget, it will not solve the issues of complexity and too much choice. The Government believes, therefore, that there is a compelling need for the financial services industry to offer a range of simple products, both to help consumers understand the choices they face, and to provide a benchmark against which all consumers can compare the many thousands of products in the market.

The Government has learned the lessons from previous simplified financial products. We do not want to design these products, nor do we want to cap the charges that product providers can charge – competition between providers should ensure that there is healthy competition on price, service, and customer experience. Further development of simple products should be led by the industry and consumer groups, so I am eager that you take the opportunity to use this consultation to begin that process.

I very much look forward to seeing simple products develop in a way that is beneficial to consumers, to industry, and the UK as a whole.

A handwritten signature in blue ink, appearing to read 'Ma M'.

Mark Hoban
Financial Secretary to the Treasury

1

Introduction

1.1 Financial services are an important part of everyday life. Financial products help households manage their spending day to day, save for the future and insure against loss. Despite this, many people struggle to understand what financial products can do for them and are bewildered by the choice on offer.

1.2 This Government wants to see a thriving and trusted financial services marketplace, where consumers can buy the products they need with confidence. The Government plans to set up a consumer protection and markets authority (CPMA).¹ The CPMA will be a strong consumer champion, tasked with ensuring confidence in financial services and markets. It will ensure that the interests of consumers and participants in financial markets are placed at the heart of the conduct regulatory system.

1.3 The Financial Services Authority (FSA) is considering options for intervening in the product value chain earlier to tackle problems in product design or product governance before they give rise to widespread consumer detriment. The Government intends to build on this by developing the CPMA's powers so it can adopt this more interventionist and pre-emptive approach.

1.4 The Government has also taken steps to help consumers take responsibility for their finances. It has announced the roll out of a free and impartial national financial advice service, which will be available from spring 2011. This will help improve consumers' understanding and management of their money. The service will include a financial healthcheck, to encourage people to think holistically about their finances. The healthcheck will deliver a personalised action plan indicating areas to prioritise and actions to take. Both of these initiatives are being developed by the Consumer Financial Education Body (CFEB), an independent statutory body set up to improve consumers' understanding and ability to manage their own financial affairs.

1.5 In addition to these domestic reforms, a number of European initiatives will support consumers. For example, the latest Undertakings for Collective Investments in Transferable Securities Directive (UCITS) introduced a "key investor information document" (KIID), which sets out key facts to investors in a clear and understandable way, to help them in making informed decisions. The Commission's consultation on Packaged Retail Investment Products (PRIPs) proposes using the KIID as a benchmark for all PRIPs (e.g. life-insurance with an investment element, structured products). This would result in a harmonised and standardised document, including a standardised risk-rating, but with tailoring for different types of PRIPs.

1.6 Education, disclosure, and regulation each have a part to play in increasing consumer confidence and supporting them in the market place. However, there are limits to what can be achieved if, when consumers go to buy a product, they are overwhelmed by the choices on offer.

1.7 The Government believes that, to help consumers take responsibility for their finances, there is a role for "simple" financial products which can be easily understood and compared. These products would "do what they say on the tin", so that consumers can compare products across a set of standard features to simplify decision making.

¹ This is a working title.

1.8 This consultation covers the rationale for intervention in the market, the Government's vision and principles for a new regime of simple products, and wider market issues.

1.9 The aim of this consultation is to gather views from all interested parties – including the financial services industry, consumer groups, and consumers themselves – on how simple products can best be developed and implemented, what challenges such an initiative would present, and how these can be overcome.

2

Rationale for intervention

2.1 Effective competition leads to better products and services for consumers. However, the market may not work effectively if consumers lack relevant information, or are unable to make use of the information they have. This can lead to consumers buying products that are not right for them, or, overwhelmed by choice, disengaging from the market. Consumers may not always act in their best interests and can have inherent behavioural biases. These behavioural biases can be used to exploit or improve decision making, for example by structuring choices in a way that encourages beneficial outcomes. One example of this is an 'opt out' savings or pensions scheme using a tendency to inertia to encourage saving.

Making sense of choices

2.2 . Although competition and innovation are generally beneficial, if consumers are unable to make sense of these choices it can prevent the market working effectively. For example, there are currently over 2000 savings products on the market from nearly 150 providers.¹ There is also a wide choice of categories of savings products, such as cash ISAs, easy access accounts or notice accounts. Marginally different features can hinder effective direct comparison.

2.3 Product features can also change during the lifetime of a product. For example, credit cards and savings products may have introductory interest rates which can make it more difficult to determine the best deal overall. Products are also subject to detailed terms and conditions or exclusions (the 'small print'), which may be described differently from provider to provider. European legislation is, however, increasingly moving to standardise disclosure and terminology, as in, for example, the Consumer Credit Directive.

2.4 These features can make the costs of comparing seem very high for consumers. Qualitative research undertaken by GfK NOP for HM Treasury indicated that consumers feel a sense of apathy when dealing with their finances and are reluctant to spend much time looking at it.² The FSA found in a 2007 survey that over two thirds of people hate shopping for insurance (as a broad category), more than half found it too complicated to compare insurance products and almost half didn't know if they were getting a good deal.³

Behavioural factors

2.5 The FSA has found that many consumers in the UK lack the confidence and capability to make effective decisions about their money, and found that many people were taking on inappropriate risks and could face problems in the future flowing from either poor choices or lack of awareness that they face the risk.⁴ GfK NOP research also found that consumers feel a lack of interest and engagement with financial matters and that they do not feel fairly treated by the industry. Consumers fear not making effective decisions or not having found the hidden 'catches' when purchasing products.⁵

¹ Moneyfacts Treasury Reports, UK Savings Trends, Moneyfacts October 2010

² Simple transparent financial products research, a research report for HM Treasury, GfK NOP, 2010

³ FSA survey conducted by BMRB omnibus, February 2007

⁴ Financial Capability in the UK: Establishing a Baseline, FSA, March 2006

⁵ Simple transparent financial products research, a research report for HM Treasury, GfK NOP, 2010

2.6 Evidence from behavioural economics suggests that people have a bias towards sticking with the status quo, which involves less mental effort than being proactive.⁶ This can mean a reluctance to shop around for better deals once the consumer has made their initial decision. People also exhibit 'loss aversion': they fear losses more than they anticipate gains. The possibility of regretting a decision later can lead to inaction, particularly when the options are complex.⁷ People also tend to procrastinate, particularly when faced with complex decisions.⁸ So even when someone knows that they should take prompt action, they will put it off until an unspecified future point. This can have an impact on effective financial planning.

2.7 In addition, many people's understanding of financial products cannot keep pace with a rapidly changing market. While financial innovation can reflect changing tastes and wider market innovations, it can be difficult for consumers to understand new features or products on the market and decide whether they want or need them.

Low levels of shopping around

2.8 Although switching products or provider doesn't necessarily lead to a better outcome for an individual, the knowledge that consumers will actively seek a better deal provides incentives for product providers to improve their offer to customers. However, in financial services markets there are generally low levels of switching apart from those products which have to be renewed regularly, for example car insurance. In an FSA survey, 55 per cent of respondents did not collect information about different life insurance policies from more than one company in order to compare them.⁹ Three quarters of consumers have never considered switching their current account provider.¹⁰

2.9 Consumers use a range of different sources to help them make decisions about which products to purchase. Independent financial advice can help people navigate complex financial decisions, and 'generic' financial advice is available from organisations like the Consumer Financial Education Body. In recent years there has been rapid growth in online product research and purchases, particularly from comparison websites. Some consumers do raise issues around trust with comparison websites, for example if commission is a factor in product ranking. However, GfK research has found that consumers generally find them to be a reasonable trade-off between time and cost. Some 37 per cent of consumers say they are likely to use a comparison site in the future and that there is still room for growth.¹¹

2.10 Comparison sites have become particularly important for general insurance. Consumer Intelligence data from December 2009, shows that 81 per cent of people shopping for home insurance, and 89 per cent of those shopping for motor insurance, used a price comparison site.¹² As many people now research savings on a price comparison site as rely on word of mouth.¹³ Consumers are also looking at more sites before making a decision, with the average number of sites visited by motor insurance switchers increasing from 1.27 in 2008 to 2.14 in 2009. Price comparison site use also correlates strongly with levels of switching.¹⁴ However, when using comparison sites, some consumers struggle to understand the trade-off between different product features beyond the headline price. For example, consumers may not understand that

⁶ *Behavioural Economics and the Financial Services Consumer: A Review*, Financial Services Research Forum, June 2010

⁷ *Financial Capability: a Behavioural Economics Perspective*, Financial Services Authority, July 2008,

⁸ *Financial Capability: a Behavioural Economics Perspective*, Financial Services Authority, July 2008,

⁹ FSA survey conducted by BMRB Omnibus, February 2007

¹⁰ *Stick or Twist? An analysis of consumer behaviour in the personal current account market*, Consumer Focus, 2010

¹¹ *On the Horizon, Emerging trends that impact retail financial services*, GfK, September 2009

¹² *The use of price comparison sites in the UK General Insurance market*, Consumer Intelligence, 2010

¹³ *On the Horizon, Emerging trends that impact retail financial services*, GfK, September 2009

¹⁴ *The use of price comparison sites in the UK General Insurance market*, Consumer Intelligence, 2010

choosing an insurance product based solely on price may not offer them the cover they expect or need.

2.11 Some people rely on friends and family for advice in many different markets. According to the ABI over a quarter of consumers (26 per cent) say they would go to their friends and family for advice on buying a financial product.¹⁵ While friends and family can be a useful source of information on some financial issues, they are unlikely to offer the best advice in most situations, in light of the huge choice of products available, especially for complex decisions.

2.12 Difficulties in making choices, behavioural factors, and relatively low levels of shopping around can contribute to consumers not getting the best deal for their personal circumstances, and at worst can lead to consumers purchasing unsuitable products (for example, nine per cent of people who rent from a private landlord hold buildings insurance, though this will usually be unnecessary) or not purchasing the product at all.¹⁶

2.13 There are some noticeable gaps in product holdings, particularly savings and protection. Around a quarter of households in the UK have no savings. In 2006, Scottish Widows noted that nearly half of households in the UK (48 per cent) had the equivalent of less than one month's salary in savings, of which 27 per cent of households had no savings at all.¹⁷ The life assurance "protection gap" - defined as the difference in the amount of cover people hold and the level they should ideally have in place to cover their protection needs - has been estimated by Swiss Re at £2,400 billion (by sums assured).¹⁸ While some people will have considered and rejected holding insurance and others will be unable to afford it, many people remain unprotected or underprotected.¹⁹

Previous simple product initiatives

2.14 The previous Government introduced two initiatives to help consumers make sense of the market: CAT (Charges, Access, Terms) standards and stakeholder products.

Box 2.A Previous simple product initiatives

CAT standards: Voluntary benchmark standards introduced in 1999 across three areas; charges, access and terms (CAT). They were initially devised for ISAs and were then extended across to residential mortgages products.

Stakeholder products: Compulsory standards around charges, access and terms for any product wishing to be designated a 'stakeholder' product. Stakeholder products were introduced for personal pensions in 2001, and then expanded to Child Trust Funds and ISAs in 2005.

2.15 HM Treasury commissioned Professor James Devlin to review research and commentary on these previous simple product initiatives. Conclusions from the review have been used to inform the development of this consultation. The research is published alongside this consultation and the key findings are summarised in box 2.B below.

¹⁵ *Financial Advice and Information Research Review*, Association of British Insurers, 2010

¹⁶ *Levels of Financial Capability in the UK: Results of a baseline survey*, FSA, March 2006

¹⁷ *UK Protection report*, Scottish Widows, 2006

¹⁸ *Term and Health Watch*, Swiss Re, 2010

¹⁹ *Term and Health Watch*, Swiss Re, 2010

Box 2.B: Headline findings from the literature review of previous simple product initiatives

2.16 Previous initiatives did not have a significant impact on their original objectives of increasing take up of products amongst people on low to medium incomes, and amongst those with limited experience of financial services.

2.17 Price caps, when combined with free transfers in and out and low levels of funds invested, meant that the products were less attractive for providers. As providers were free to offer non-capped products, they often made the decision not to offer CAT standard or stakeholder products.

2.18 Consumers have benefited from lower prices due to the charge cap, particularly for pensions, in part due to the 'RU64' rule that required advisers to compare their recommended pension product against a stakeholder version.

2.19 The basic advice regime created by the FSA for selling stakeholder products was too expensive to make the products profitable for providers. Firms were also concerned that, in the event of a mis-selling claim, they would be judged under the principles of full advice rather than basic advice. Consumers also had low awareness of what basic advice provided.

2.20 Among consumers there was not enough demand to make products a success. This was in part because the initiatives did not catch consumers' attention and partly because firms had no incentive to market or sell products to consumers. For example, many consumers had not heard of CAT standards and did not know if the product they had bought met these standards or not.

2.21 However consumers like the broad concept of simple products and there does seem to be a place for simple products in the market.

3

Developing and delivering simple products

Vision and objectives

3.1 To support consumers in their decision making, and to aid competition, the Government is keen to see a new range of simple products introduced for 'mass market' consumers.

3.2 The Government believes that simple products should be designed to be as straightforward as possible, to aid consumer understanding of the different features of each product. They should also help consumers to compare simple products from different providers.

3.3 It is not the Government's intention that simple products should restrict consumer choice. It believes that they should sit alongside existing products similar, for example, to supermarket ranges which carry labels like 'essential' or 'basic'.

3.4 This consultation sets out a number of high level principles and parameters that the Government believes should be the starting point for further development. To support consumers' decision making, simple products should have comparable features, so that it is easy for consumers to understand what the product contains and to compare with other simple products. This should lead to competition among providers based on price, customer experience and on 'soft' features such as brand.

3.5 Simple products could also provide a benchmark across non-'simple' products, by providing a point of reference against other products on the market. Evidence from behavioural economics suggests that peoples' decisions are heavily influenced by how choices are framed or anchored.¹ Simple products could help consumers decide which additional product features were of value to them, and what they were prepared to pay for them.

3.6 The Government believes that simple products should be developed so that they deliver against three clear objectives.

- To ensure that people understand the products they need;
- To help people make better choices; and
- To encourage competition in the market.

Question 1: The Government would welcome general comments on the vision and objectives for a new regime of simple products.

¹ *Behavioural Economics and the Financial Services Consumer: A Review*, Financial Services Research Forum, 2010

Product principles

3.7 The Government believes that the industry, together with other interested parties, should take forward development of simple products. Lessons from the design of stakeholder products suggest that Government alone is often not best placed to design products that are profitable for providers and that are straightforward and appealing for consumers. The Government would like to see the design of simple products taken forward by other organisations. We would be interested in seeing a partnership develop between representatives from industry and consumer groups, to ensure that the products are appealing to both sides.

3.8 The Government has no plans to mandate the development of simple products, or to require that all providers supply a simple product option. The Government believes that simple products should be a wholly voluntary initiative, for example through a voluntary code similar to the Lending Code.

3.9 The Government recognises that the design of financial products varies from product to product. It may be that different approaches to design are required for different simple products categories, as experts from one area may not have the expertise to design products in other areas of financial services.

Question 2: Should this work be led by industry and consumer groups and not Government?

Question 3: How can industry and Government ensure a voluntary set of standards offers sufficient protection for consumers?

3.10 The Government is clear that simple products should not be subject to mandatory price caps. We believe that if products are transparent and easily comparable, competition between providers should lead to prices being kept low, without the need for price regulation or standardised costs. Both CAT standards and stakeholder products involved capping charges. Stakeholder pensions had an initial price cap of 1 per cent annual management charge. This then rose to 1.5 per cent for the first 10 years when other stakeholder products were introduced in 2005. Even this rise was not seen to have a large positive effect on the provision of stakeholder products. The Government believes that the combination of a voluntary approach and no price caps should be sufficient to ensure that simple products can be profitable for providers.

3.11 Many commentators have suggested that an important positive attribute of the stakeholder pensions regime is the rule commonly known as the “RU64” rule, which requires advisers to benchmark against a stakeholder pension and to justify why a non-stakeholder product is more suitable than a stakeholder product for an individual’s circumstances. This rule is widely credited with reducing overall charges for personal pensions. The Government would like to explore how the principle behind RU64 could be introduced with the new regime of simple products.

Question 4: Are there any reasons that simple products should have price caps or other standardised pricing features?

Question 5: How could simple products be used as a benchmark or a comparator? Is there a case to support this with regulation, as with the RU64 rule?

3.12 The Government sees simple products as being beneficial across the mass market. While a simple product may not be the most suitable choice for everyone, it should never be a “bad” choice. Simple products should have clear features to help consumers understand if they can benefit from these products or not. Simple products will however carry an opportunity cost if people purchase a simple product instead of a product that would have been more suitable for their needs, but equally there can be an opportunity cost to not buying a product at all. Government expects that simple products will be most beneficial for those who lack confidence or experience in purchasing financial products, but we do not believe they should be targeted at any particular group. Simple products will also help consumers to shop around more effectively.

Question 6: Are there any groups that simple products should be targeting? If so what implications would this have for the development and promotion of simple products?

3.13 Ideally, simple products would have a limited number of standardised features. Highly differentiated product features within the category of simple products would be likely to inhibit effective comparison. The industry has some prior experience at setting minimum standards, suggesting that achieving some degree of standardisation may be possible. For example, the Association of British Insurers (ABI) have a statement of best practice on minimum standards of critical illness cover to help consumers compare, to help improve understanding and to provide consumers with confidence in the product.²

3.14 The Government recognises that it may not be practical for products to be completely standardised. Different providers may vary product features according to their target market or commercial models, and standardisation may undermine the commercial viability of simple products. Standardisation may also make it difficult to keep up with market developments.

Question 7: Is it practical or desirable to have a range of completely standardised products? Is standardisation more practical for some products than others?

Question 8: Beyond standardisation what other measures could be used to help improve consumer understanding of product features?

Question 9: Should someone “police” the standardisation of products?

3.15 The literature review has shown that previous simplified products initiatives did not have a strong brand, with consumers demonstrating a relatively low level of awareness of both CAT standard and stakeholder products. Marketing and branding will be critical in ensuring sufficient demand from consumers for simple products.

3.16 The Government would like to see the new regime of simple products develop clear brand recognition. This will be an important way of building trust and sustainable demand. For example, the ‘ISA brand’ has become embedded in consumers’ consciousness and is a trusted brand, with over 20 million adults in the UK now holding ISAs.

3.17 By allowing industry to take the lead in product design, providers should recognise the benefits of simple products and market them to consumers. Clear advice, for example through

² Association of British Insurers, Health and Protection Codes and Guidance Notes:
http://www.abi.org.uk/Information/Codes_and_Guidance_Notes/Health_and_Protection_Codes_and_Guidance_Notes.aspx

the annual financial healthcheck, will also help with brand recognition amongst consumers. The Government would welcome suggestions on how the simple products brand can be developed.

3.18 In the longer term, once the product features have been designed and the standards set, consumers will need to trust the simple products brand and have confidence that the products do actually meet the set standards. The Government is keen to receive views on whether this monitoring can be done on a voluntary basis, or if an external organisation will need to take on this responsibility.

Question 10: How could the simple products brand be developed?

Question 11: How can consumers be reassured that these products meet the required standards?

Product categories

3.19 Although the Government believes that the principles of simple products are widely applicable, it also believes that, initially, simple products should focus on products that do not carry risk to capital, i.e. that are not investment products. Risk would add an extra level of complexity to the product design, as the design would have to weigh up how much risk individuals are willing to bear, both in terms of capital risk and risk to gains.

3.20 The Government also believes that simple products should be straightforward enough to be purchased without regulated advice. Given that consumers have in recent years developed an increased reliance on the Internet and comparison sites for product research, the Government believes that focusing simple products on non-advised channels will help support consumers in taking responsibility for their decisions. This should not preclude or prevent simple products being sold through advised channels, or being used by advisers as a benchmarking tool where this would benefit customers, but this is not the primary focus for simple products.

3.21 The Government would welcome evidence on which products are most suitable for a simple products regime. Bearing in mind the principles set out above, the Government believes that savings accounts and protection products should be developed first.

3.22 Deposit savings accounts can contain introductory bonuses, penalties for early withdrawals or frequent withdrawals, and stepped interest rates, amongst other features. Comparing across products with different features can be challenging even for sophisticated individual consumers. The Government is eager to ensure that complexity is not a barrier to saving. It therefore believes that simple deposit savings products would be of benefit to the market and would deliver clear benefits to consumers.

3.23 Protection also has an important role in helping people to build up financial security. Many people do not have protection in place in case of a loss of income by them or their dependents; either through redundancy, illness, or loss of life. Protection products are often described as being “sold, not bought”, and many consumers may not understand the value or features of these products. Whilst some people may choose not to purchase such protection, or judge that these products do not offer sufficient value for money, there are likely to be some consumers who find difficulty in choosing between products or in understanding the value of the product. The Government believes that there could be a clear benefit in giving people easy to understand protection products to help them understand what they are purchasing and the benefits. We believe that term life insurance, critical illness, and income protection cover are the insurance products most likely to benefit from the development of simple products. We would welcome

suggestions on other product categories that should be included, or comments on the two suggested products categories.

3.24 The Government would like as many people as possible to be able to take advantage of the clarity that simple products will provide. While we are proposing initial product categories that we believe offer the best initial opportunities for development, there are some financial products which are more popular among, or are specifically aimed at, particular age groups or life-stages. The Government would therefore welcome views on whether there is scope to develop simple products in categories that may offer specific benefits for discrete age-groups or sections of the market, such as older people or those saving for the first time.

Question 12: Do you agree that deposit savings products and protection products should be the initial areas of focus? Are there significant features or product characteristics in these categories that would lend themselves to standardisation?

Question 13: Do you have views on how simple financial products could be developed to benefit particular age-groups or sections of the market?

Benefits of simple products

3.25 The Government believes that the benefits of a new simple products regime should outweigh the costs, both for individuals and the industry. By placing the responsibility for product design on to the industry and consumer groups, the products developed should be profitable for providers and appealing to consumers.

3.26 The Government would welcome initial indications of the costs of developing and selling simple products. As the likely shape of a simple products regime develops, we will of course conduct a full cost-benefit analysis and impact assessment.

3.27 A better understanding of products should lead to more people purchasing products that are appropriate for them, leading to higher levels of satisfaction and lower levels of complaints. It should also encourage consumers to compare the product they are purchasing with other products, to ensure that they have the most suitable and best value product for their needs. Helping encourage consumers to compare may also help encourage competition through increased shopping around and switching.

3.28 For providers, we believe simple products may provide an easier, and potentially cheaper sales process. The next chapter touches on the sales process, including a potential link to the Consumer Financial Education Body's national financial advice service, which may help to increase demand and lower sales costs for providers helping to ensure the profitability of these products. Simple products should also help prevent people being put off product purchases because of the complexities of the market, potentially leading to increased product holdings.

Question 14: The Government would welcome any evidence about costs and benefits of developing a new regime of simple products, preferably drawing on experience of implementing previous simple products initiatives or introducing new products lines.

4

Wider issues

4.1 The Government is keen to ensure that the development of simple products is taken forward in a co-ordinated way and takes account of the numerous ways in which the advice landscape is changing. There are some longer term issues or issues involving the wider market beyond simple products that the Government is keen to seek views on as part of this consultation.

Sales process

4.2 Previous examples of simple products initiatives have shown how critical the sales process is both in terms of ensuring sufficient consumer demand and keeping costs low for providers. For stakeholder products the price cap coupled with a more expensive advice model than originally anticipated, led to the products being expensive to supply. There is now an opportunity to rethink these issues in the context of a new advice landscape.

Changes in the advice landscape

4.3 The Government's Coalition Agreement includes a commitment to implement the UK's first free and impartial national financial advice service, and the Government has asked the Consumer Financial Education Body (CFEB) to develop this. It will not give regulated advice, but it will provide people with information and advice on all major areas of money and personal finance. A key component of the national financial advice service will be a financial healthcheck, that will provide people with a holistic review of their finances, highlight areas to prioritise, and give people a personalised action plan to take forward. The service will move as close to the regulatory boundary as possible to ensure that people have a seamless journey between the national financial advice service and regulated advice, should they need it. To this end, CFEB is exploring the possibility of providing generic product recommendations, for example 'you should consider purchasing home contents insurance'.

4.4 The Retail Distribution Review (RDR) will come into effect at the end of 2012. This will increase professionalism in the financial advice sector and will increase clarity through labelling advisers as either 'independent' or 'restricted'. It will also reform adviser remuneration to reduce conflicts of interests and to provide consumers with a better understanding of the services they are receiving and what they cost. The RDR may also lead to advisers developing new models for regulated financial advice: for example, the industry is considering developing a simplified advice model which would provide a limited sales route.

4.5 Comparison websites have helped consumers become more accustomed to self serving on some products and as well as being a sales channel in their own right, are often a useful source of information and market intelligence for consumers which assist them in shopping around.

4.6 While the previous chapter states that simple products should be available to buy direct from the provider, simple products may also be sold through, or linked to, advice and information channels. The Government thinks that there may be merit in the longer term in linking generic product recommendations from CFEB to the new simple products regime in a way that allows CFEB to remain impartial and sales-free.

4.7 We would welcome views on the sales process for simple products.

Question 15: What would be the benefits and disadvantages of linking simple products to CFEB’s national financial advice service, including within the financial health check?

Question 16: Should the new regime of simple products be linked to regulated advice? If so, how might this work?

Previous simple products initiatives

4.8 With the ending of eligibility for child trust funds, the introduction of a new tax-free account for saving for children (‘Junior ISAs’), and the limited take up of stakeholder cash ISAs and equity ISAs, the Government believes that now is the right time to re-examine the role that stakeholder products play in the savings market place. There is the potential for duplication between the old stakeholder products and the new simple products. The Government is keen to consider whether to continue to keep the regulations around stakeholder savings products.

4.9 The Government believes there is a strong rationale for retaining stakeholder pensions. Pensions are not an early target for development of simple products. While the take up of stakeholder pensions has been limited, stakeholder pensions do provide an “off the shelf” option for people who want a private pension. They have also had a beneficial impact on prices of personal pensions through the RU64 rule. While the pension landscape will be changing significantly with the introduction of the National Employment Savings Trust (NEST), the Government is minded to continue stakeholder pensions. However Government will continue to review the role they play in the pensions market.

4.10 Stakeholder products can be sold through basic advice (created by the FSA to provide a cheaper alternative to full advice for a limited range of stakeholder products), although in practice most are sold using full advice. The FSA reviewed basic advice in 2008, when it concluded that the regime should be retained. While considering the evidence on stakeholder savings products, the Government would welcome thoughts on the basic advice regime.

Question 17: The Government would welcome evidence on the role of savings stakeholder products in the market and the effects of removing or keeping them.

Question 18: The Government would welcome evidence on how the basic advice regime is working, if it is understood by consumers and profitable for providers.

Question 19: The Government would welcome views on any other wider issues that need to be considered alongside simple products, including the impact on the wider market.

A

Summary of questions

Question 1: The Government would welcome general comments on the vision and objectives for a new regime of simple products.

Question 2: Should this work be led by industry and consumer groups and not Government?

Question 3: How can industry and Government ensure a voluntary set of standards offers sufficient protection for consumers?

Question 4: Are there any reasons that simple products should have price caps or other standardised pricing features?

Question 5: How could simple products be used as a benchmark or a comparator? Is there a case to support this with regulation, as with the RU64 rule?

Question 6: Are there any groups in particular that simple products should be targeting? If so what implications would this have for the development and promotion of simple products?

Question 7: Is it practical or desirable to have a range of completely standardised products? Is standardisation more practical for some products than others?

Question 8: Beyond standardisation what other measures could be used to help improve consumer understanding of product features?

Question 9: Should someone police the standardisation of products?

Question 10: How could the simple products brand be developed?

Question 11: How can consumers be reassured that these products meet the required standards?

Question 12: Do you agree that deposit savings products and protection products should be the initial areas of focus? Are there significant features or product characteristics in these categories that would lend themselves to standardisation?

Question 13: Do you have views on how simple financial products could be developed to benefit particular age-groups or sections of the market?

Question 14: The Government would welcome any evidence about costs and benefits of developing a new regime of simple products, preferably drawing on experience of implementing previous simple products initiatives or introducing new products lines.

Question 15: What would be the benefits and disadvantages of linking simple products to CFEB's national financial advice service, including within the financial health check?

Question 16: Should the new regime of simple products be linked to regulated advice? If so, how might this work?

Question 17: The Government would welcome evidence on the role of savings stakeholder products in the market and the effects of removing or keeping them.

Question 18: The Government would welcome evidence on how the basic advice regime is working, if it is understood by consumers and profitable for providers.

Question 19: The Government would welcome views on any other wider issues that need to be considered alongside simple products, including the impact on the wider market.

B

How to respond to this consultation

B.1 HM Treasury invites comments on the proposals and the specific questions raised in this consultation document.

B.2 The questions are throughout the consultation document and are summarised in Annex A.

B.3 The consultation period will end on Friday 25 March.

B.4 Please send responses to:

Joanna Bibby-Scullion
Savings and Investment Team
Room 3.20
HM Treasury
1 Horse Guards Road
London, SW1A 2HQ

Tel: (+44) (0) 207 270 6624

Email: simple.products@hmtreasury.gsi.gov.uk

Confidentiality

B.5 When responding please state whether you are responding as an individual or representing the views of an organisation. Written responses will be published on HM Treasury's website unless the author requests otherwise. In the case of electronic responses, general confidentiality disclaimers that often appear at the bottom of e-mails will be disregarded for the purpose of publishing responses, unless an explicit request for confidentiality is made in the body of the response. If you wish part, but not all, of your response to remain confidential please supply two responses - one for publication, with the confidential information deleted; and one confidential version.

HM Treasury contacts

This document can be found in full on our website at:
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If you require this information in another language, format or have general enquiries about HM Treasury and its work, contact:

Correspondence Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 4558

Fax: 020 7270 4861

E-mail: public.enquiries@hm-treasury.gov.uk

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