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Ms Carol Sergeant  
Simple Products Interim Report  
Association of British Insurers  
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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

Kay Blair  
Vice Chair  
Financial Services Consumer Panel