

Chairman's Foreword to 'Defining Straightforward Outcome Products' report.

It is unfortunate that very few financial services products are straightforward, can be easily understood and 'do what they say on the tin'. Indeed, most products are extremely complex. Consequently many people find choosing the right products for their needs a stressful and frequently unrewarding exercise. In addition trust in the financial sector is low as a result of past experiences of financial services mis-selling and the recent economic crisis which has sapped consumer confidence in the current system.

Building trust in financial services is critical and, we believe, dependent on consumers' ability to access reliable products at an acceptable cost. The Consumer Panel is interested in finding a solution to this problem for those consumers who would like to buy financial services products which produce a straightforward and expected outcome. To help progress this debate, we commissioned an independent consultant, Nick Hurman to investigate the likely nature and characteristics of 'straightforward outcome' products. As part of this study, we also asked Nick to consider and assess other types of products in this space. This followed on from the Panel's 2010 research which looked at 'safer' products http://www.fs-cp.org.uk/publications/pdf/safer_products_report_0910.pdf and the Treasury's consultation on 'simple' products http://www.hm-treasury.gov.uk/d/simple_financial_products_consultation.pdf

Nick has proposed a set of defining criteria for each of these product types and assessed a sample of existing products to determine whether they meet these criteria. We also asked Nick to address some of the possible ways such a product regime might be established and what the barriers and challenges might be in delivering straightforward outcome products.

The analysis outlined in this study suggests that it would be feasible to specify criteria which would allow consumers to purchase products well suited to their needs, with little likelihood of regret or complaint. Such straightforward outcome products may well be suitable for distribution both to more confident consumers without advice, but also through Simplified Advice.

While the views expressed in the report are those of the author we believe that these proposals provide a framework for debate for Government, regulators, consumer groups and industry in order to address this very real issue for millions of consumers. We hope they rise to the challenge.

Adam Phillips

Consumer Panel Chair

FINANCIAL SERVICES CONSUMER PANEL

DEFINING “STRAIGHTFORWARD OUTCOME PRODUCTS”

A REPORT BY NICK HURMAN, BSc, MBA, FCII

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1. EXECUTIVE SUMMARY

This short paper sets out some suggested criteria for 'simple', 'safer' and 'straightforward outcome' products to promote further debate. It includes an analysis of a range of current products using these criteria and sets out which products and product designs might fall within and outside these criteria. This analysis suggests that a 'straightforward outcome' formulation may cover a broader scope of mass market products than 'simple' or perhaps 'safer' products, whilst still providing valuable benchmark products for consumers to start from and as a comparison point for other product offerings. It lists a number of issues that arose in applying these criteria and some possible ways to address these.

The paper also makes some brief comments on possible ways that such a products regime might be established, possibly using a broadly-based standards body, and that a strongly valued and recognised brand with less expensive sales processes and strong endorsement from trusted intermediaries could generate commercial support.

This analysis now sets up a debate about:

- how the balance of different criteria affects the resulting product/distribution solution,
- the risk appetite of government, regulators, providers and consumer bodies around these products and
- the potential market they could address for from a public policy and a commercial perspective.

2. INTRODUCTION AND SCOPE OF WORK

The Financial Services Consumer Panel has strongly supported the FSA's Retail Distribution Review which, when implemented, will clarify the responsibilities of financial advisors and the basis on which they are remunerated. One widely expected consequence, however, is a likely shortfall in advice available to less affluent consumers. Some of these consumers could afford to acquire investment and other financial services products but may not see the fees charged as representing good value for money. The Panel has therefore been concerned to explore the scope for what might variously be termed 'safer', 'simpler' or 'straightforward outcome' products, which might be distributed through a range of distribution channels - including 'simplified advice', at lower cost than standard products distributed via standard advice. In 2010, the Panel commissioned a report from David Severn looking at industry perceptions of these types of products which it has published (http://www.fs-cp.org.uk/publications/pdf/safer_products_report_0910.pdf)

The Panel has had discussions with the FSA and with a number of major firms to understand better the impediments in the way of meeting the needs of consumers in this particular market segment, with the aim of encouraging beneficial practical outcomes.

The Treasury has issued a consultation document on the topic of Simple Financial Products (http://www.hm-treasury.gov.uk/d/simple_financial_products_consultation.pdf)

The Consumer Panel now wishes to facilitate developments in this area and commissioned a piece of analysis from Nick Hurman¹, an independent industry professional, to develop the FSCP's thinking by addressing two main matters:

- The criteria for (particular classes of) products to satisfy in order to be a straightforward outcome product.
- The types of product that would therefore be likely to qualify as straightforward outcome products

The Panel also asked for a brief commentary on the how a regime for such products might be established, maintained and policed and what might make it attractive for financial services firms to offer such products.

This report sets out the findings from this work.

3. METHODOLOGY

The aim of this analysis is to define what is meant in reality by 'safe', 'simple' or 'straightforward outcome' products. If this can be achieved, the debate can be moved on to the question of whether these would better meet consumer needs and how they could be delivered to the market.

The analysis is in three parts:

- Developing the product criteria
- Assessing products
- Mapping the product space

DEVELOPING PRODUCT CRITERIA

The first step was to identify the product criteria to be used. This started from a desk analysis of the each of the proposed approaches – 'safe', 'simple' and 'straightforward outcome' - and was followed by discussion with HMT, David Severn and the Consumer Panel to confirm and expand on the desk analysis.

From this, criteria were defined and calibration suggested.

ASSESSING PRODUCTS

The core of the analysis is a matrix assessing product types against the product criteria. In order to provide the degree of specificity, specific products (e.g. home insurance, credit card, stocks and shares ISA) are listed under each of the broad classes. This has enabled specific examples to be given of how product criteria are met or could be met and issues that the specific products and product designs present in meeting the criteria.

The list of products is not intended to be exhaustive – products have been chosen to cover a spread of complexity within the overall class and to illustrate the different issues that arise in different parts of the market.

Each product will be assessed against the product criteria and an evaluation rating given – meets, partially meets, does not meet, not applicable - together with a series of footnotes explaining rationale for many of the ratings where appropriate. This assessment will be drawn up based on personal knowledge and experience

¹ Further background on Nick Hurman is included in Appendix 1.

with reference to external data and analysis wherever available and appropriate and with discussions with a small number of stakeholders covering government, consumer and trade bodies such as Consumer Focus, Which?, BBA and ABI.

MAPPING THE PRODUCT SPACE

The output from the analysis is mapped out to show for each product class axis, which products would fall within or outside the criteria and which on or near the boundary. This allows some observations as to the likely product sets each approach would create and sets up a debate about:

- how the balance of different criteria affects the resulting product/distribution solution,
- the risk appetite of government, regulators, providers and consumer bodies around these products and
- the potential market they could address for from a public policy and a commercial perspective.

4. CRITERIA ANALYSIS

SIMPLE PRODUCTS

HM Treasury's Simple Products analysis starts from the view that:

- There is too much choice and too much complexity, leading to confusion and inaction and
- the National Money Advice Service's financial health check will provide advice about how to manage money better, the types of product they need and where to get financial advice.

It recommends a range of simple products to enable consumers to understand the choices they face and to provide a benchmark for comparison – products that easily understood and compared and 'do what they say on the tin'

Simple products are proposed that are:

- 'Generics' – like 'basic' or 'essential' labelled supermarket products to help consumers frame choices and comparisons. Therefore 'mass market' products.
- Covered by a voluntary code similar to the lending code.
- Not subject to price caps but possibly a 'RU64' style rule.
- Constructed with a limited number of standardised features.
- Heavily marketed and branded (when compared to CAT and Stakeholder) with the National Money Advice Service also helping to build awareness
- Monitored to ensure simple products can be trusted and
- Possibly for specific age-groups or sections of the market (e.g. older people, first time savers)

The proposals set out two specific criteria, alongside these broader principles:

- No risk to capital
- Straightforward enough to be purchased without regulated advice

In discussion with HMT, they said simple products should be available without advice, for consumers to purchase execution only. This does not preclude simple products from being sold with regulated advice, although it should not be the sole channel.

However, the product range currently suggested is outside of the regulated boundary for mortgage and investment products, potentially linking the simple products criteria directly to the provisions of the Financial Services and Markets Act (FSMA)².

The table below sets out supporting commentary on the criteria, some possible issues arising and evaluation criteria.

Criterion	Commentary	Possible Issues	Evaluation
No risk to capital	<ul style="list-style-type: none"> • Not investment products • Avoids complexity of assessing level of risk individuals are willing to bear in terms of capital risk and risk to gains 	<ul style="list-style-type: none"> • Exposure to inflation risk, especially over the longer term 	By inspection of contract terms
Straightforward enough to be purchased without regulated advice	<ul style="list-style-type: none"> • Follow consumer trends for internet and comparison site shopping • But not preclude sale through advised channels 	<ul style="list-style-type: none"> • Very restricted product • Regulated advice and media articles may discredit appeal of simple products if it consistently recommends products outside a simple products regime 	By reference to FSMA

The proposals go on to suggest the following possible products in a simple products range:

- Deposit savings accounts – without complexities, such as:
 - Introductory bonuses
 - Penalties for early withdrawals
 - Stepped Interest rates
- Protection Insurance
 - Term life assurance
 - Critical illness
 - Income Protection

SAFER PRODUCTS

In his report for the Panel, proposing a regime of safer products, David Severn takes as his starting point:

- The potential size of market is unclear: independent/regulatory evidence suggests the investment market relatively small, industry evidence (e.g. ABI savings survey) suggests large
- The majority of consumers are risk-averse and anxious to avoid nominal losses to savings – but in choosing ‘safer’ savings products may be blind to the corrosive effect of inflation
- The purchase of Lifetime Annuities present issues as one-time and irrevocable – suggests default position should be to get advice
- The industry experience of simple/safer products is almost all negative with insufficient margins for distribution (Child Trust Fund a possible exception)

² The author has interpreted the scope of simple products as initially excluding products falling under the conduct of business regulations for investment products and mortgage products but not for insurance products. This is because the proposals specifically list protection products as possible products under a simple products regime and exclude products with risk to capital.

- The industry is more concerned with changes to the selling/advice regime than products
- The resistance by the industry to see the government or regulator become involved with design of products
- The Basic Advice Regime is capable of being extended to other 'safer' products but the FSA has not honoured its commitment to examine this possibility
- The growth in the use of 'platforms' not relevant to 'safer' products as the anticipated customers are unlikely to have sufficient investments or inclination to make use of platform tools
- Product might start out as 'safer' but not remain so because of changes in
 - Consumer's circumstances
 - Economic circumstances
 - Products themselves
- Much UK legislation now derives from EU directives and trend is growing

In setting out his design principles he suggests:

- Ron Sandler's report for HMT³ gives many useful pointers, namely
 - Desirability of low levels of charges
 - Passive investment approaches preferred to active
 - Importance of asset allocation and diversification
- NEST accounts provide a model for approach for 'safer' products and will provide a 'safer' and fair value pension product for many consumers (but see above re: annuity issues)
- There is a need to take account of tax position of safer products as can
 - Distort choices
 - Impose restrictions
 - Confer tax sheltering benefits
- It is desirable to unbundle investment and protection elements in unitised products

He sets out the following as suggested criteria. The table below sets these out with additional commentary, possible issues and evaluation criteria:

Criterion	Commentary	Possible Issues	Evaluation
Allows regular savings	<ul style="list-style-type: none"> • But not committing consumer to make contributions each and every period • Reasonably low threshold 	<ul style="list-style-type: none"> • May result in significant cross-subsidies or higher charges to subsidise 	<ul style="list-style-type: none"> • Threshold level similar to stakeholder £20/month? • No penalty for savings holidays?
Charges should be low		<ul style="list-style-type: none"> • Low relative to? • What is the relevant 'counterfactual'? Best product? Do nothing? • HMT paper explicitly excludes price capping 	<ul style="list-style-type: none"> • Competitiveness of market for product • Any external economic assessment of product market
Passive investment approach	<ul style="list-style-type: none"> • If an investment product 	<ul style="list-style-type: none"> • Opportunities for tracking errors • Passive is not a defence against volatility • May exclude income returns 	<ul style="list-style-type: none"> • By inspection • No active option

³ See http://webarchive.nationalarchives.gov.uk/+http://www.hm-treasury.gov.uk/documents/financial_services/savings/fin_sav_sand.cfm

Invests in diversified asset classes	<ul style="list-style-type: none"> • If an investment product • In order to manage risk 	<ul style="list-style-type: none"> • What is the appropriate asset mix? • Which classes to include (e.g. index-linked gilts)? • Mix should (in theory) reflect attitude to risk 	<ul style="list-style-type: none"> • At least mix of equities/fixed interest where each component greater than, say, 30%? • Life styling for term limited investments?
Eligible for inclusion in any appropriate tax wrapper			<ul style="list-style-type: none"> • ISA option for savings
Should not confuse savings/investment with protection needs	<ul style="list-style-type: none"> • Protection should be bought separately 	<ul style="list-style-type: none"> • May be required to benefit from qualifying policy rules • Should rider options be allowed (e.g. waiver of premium on pension contributions)? 	<ul style="list-style-type: none"> • Any life element minimum for qualifying status
Described in plain and clear terms	<ul style="list-style-type: none"> • Open and honest about the potential risks 	<ul style="list-style-type: none"> • Disclosure heavily regulated – key facts designed to do this job • Benchmark risks and rating required? • Contractual and performance risks both need to be covered • Risk creating (yet another) disclosure regime 	<ul style="list-style-type: none"> • Goes to intent and clarity of presentation • Are key facts 'sober' and not obscured
Should reflect ethical/other beliefs		<ul style="list-style-type: none"> • Sharia products specialised and niche markets, low UK volumes • Ethical – wide range of approaches • 'Dark' green can be significantly restrictive (and higher risk) • Should these be options or different ranges? 	<ul style="list-style-type: none"> • Are they offered (if relevant)
Covered by UK FSCS		<ul style="list-style-type: none"> • Limits of protection • Doesn't cover trust-based pensions 	<ul style="list-style-type: none"> • By inspection

STRAIGHTFORWARD OUTCOME PRODUCTS

The Panel introduced their suggested approach of Straightforward Outcome products in their response to HM Treasury's simple products consultation⁴ and also in their response to the FSA's DP11/1 on Product Intervention⁵.

Their view is that the appropriate focus should be products that deliver a straightforward outcome, which would not necessarily exclude fairly complex products in terms of structure and cost, rather than "simple products" per se. These straightforward outcome products would not necessarily be limited to a 'budget' type brand, although clearly the range would have to include products for individuals on low incomes. They see these products also performing an RU64-type role as benchmark products against which consumers can measure other products performing similar functions.

⁴ See http://www.fs-cp.org.uk/publications/pdf/hmt_simple.pdf.

⁵ See http://www.fs-cp.org.uk/publications/pdf/response_dp1101.pdf.

The design principles suggested are that such products:

- ‘Do what they say on the tin’
- Have limited and well understood risk to capital (e.g. index trackers)
- Can be purchased through any distribution channel including execution only sales

As part of this project, the following criteria have been developed to determine if products might have straightforward outcomes. The table below sets these out with further commentary, possible issues and evaluation criteria.

Criterion	Commentary	Possible Issues	Evaluation
Well understood outcomes	No regrets or surprises Outcomes can be verified with external benchmarks Capable of clear and concise explanation	<ul style="list-style-type: none"> • Issues may not become apparent until end of contract or at claim • May be influenced by channel (face to face v internet v telephone) • Well understood outcomes may have significant risks 	<ul style="list-style-type: none"> • Customers can explain what they expect of the product easily • Few complaints or surprises
Transparent charging	Charging is clear and easy to understand Enables straightforward comparisons between product offers Remains the same during the life of the product	<ul style="list-style-type: none"> • At what point do charges become unclear or difficult to compare? • Is reviewable pricing unacceptable in all circumstances (e.g. NEST)? 	<ul style="list-style-type: none"> • Customers feel confident comparing product charges • Customers are not surprised by hidden or changing charges
Fair value	Product charges are within the normal range and for its type Product charges bear a clear relationship to the costs of provision	<ul style="list-style-type: none"> • How to define ‘normal range for type’ • Should products not be at lower end with strong ‘brand’, simpler sales process and higher expected volumes? 	<ul style="list-style-type: none"> • Not ‘outliers’ in product class • Revenues and costs indicate no excessive profits (or losses) • Outcomes reflect value compared to consumers’ needs • Value in comparison to peers in terms of rates/cover/benefits and/or costs
Clear and fair Ts&Cs throughout the contract	Terms and conditions are clear and do not change during contract		<ul style="list-style-type: none"> • Customers not surprised by new/changed Ts&Cs
Clear and fair restrictions on exit	If exit restrictions exist they are very clear and charges are reasonable in consideration to the costs to the provider of early termination		<ul style="list-style-type: none"> • Customers understand the exit restrictions and feel comfortable with the trade-offs • Restrictions/charges of this are widely used/required and expected in the market
Scheme or guarantee to limit counterparty risk	Counterparty risks can be disregarded for mass market customers due to suitable market protection schemes ⁶ or secure guarantees		<ul style="list-style-type: none"> • By inspection

⁶ The FSCS covers 100% of losses on deposits up to £85,000 and investments up to £50,000

Conservative financial construction	Traditional product construction with well understood and stress-tested outcomes. Derivatives and synthetic instruments only used for deliver more efficient mechanism not to leverage returns or to produce new outcomes.	<ul style="list-style-type: none"> • Possible loss of innovation? • How to judge? 	<ul style="list-style-type: none"> • Behaviour of product under stress testing is as a conventional product in the marketplace • No enhanced or unexpectedly triggered risks • No unexpected leverage due to construction (e.g. created by closed funds or derivative strategies)
Ombudsman scheme	Complaints scheme with independent arbitration available to consumer in cost of product.		<ul style="list-style-type: none"> • By inspection

5. PRODUCT ASSESSMENT AND MAPPING

With these three sets of criteria defined, the main analysis looked at three product classes with the following products selected:

- Insurance
 - Household, Motor, Travel, Term Life, Income Protection and Critical Illness
- Lending, including consumer credit and secured lending
 - Personal Loan, Credit Card, Mortgages: Variable Rate, Fixed Rate, Lifetime
- Savings and investments
 - Deposit accounts, Cash ISAs, Building Society Bonds, Stocks and Shares ISAs, Pensions, Pension Annuities

The detail of the analysis is set out in Appendix 2. This sets out the assessment of each product against each of the criteria for ‘simple’, ‘safe’ and ‘straightforward outcome’ and gives detailed notes explaining how the evaluations have been arrived.

A number of issues arise from the evaluation process that would need to be addressed if these criteria are to be worked up into more detailed proposals for assessing existing or new products. Some issues highlighted include:

- **Investment risk** – the simple products approach rules out the majority of investment risk by requiring protection of capital. The Safer products approach recommends multi-asset passive investments whereas the straightforward outcome approach tends towards single asset class trackers as easier to understand and verify. The latter two approaches could be reconciled if there were a widely recognised and used multi-asset index. In pensions, this may be moved forward by the creation of NEST, where the default fund is likely to become a de-facto index for long-term multi-asset investments. A related issue in pensions is default variations in risk as implemented in ‘life styled’ and ‘target date’ funds.
- **Interaction of products with guidance and advice** - Some products can have straightforward outcomes but deciding on the outcome the consumer will find meets their needs may still require advice/guidance. Examples could be annuities (such as making informed choices about single/joint life and indexation options) and those with significant medical underwriting or conditions (such as Income Protection or Travel Insurance). The issue is to what extent consumers can rely on their own judgement and how far this can be assisted by strategies such as structured questions and defaults. Or do such products exclude themselves from a simple/safe/straightforward regime? Or does this create a second category of straightforward products that require a partnering straightforward advice regime?

- **Product design features** - Certain design devices within products can be used to make the outcomes more straightforward. But a 'position' needs to be taken to advocate these, especially if this results in a product with headline rate or other principle sales features that are less attractive to market. Examples of such features are base-rate trackers for saving accounts and mortgages and fixed rate products. The issue is can sufficient consensual support for these 'positions' be formed to gain wide support from providers/advisors/ regulators/media/commentators and hence to recommend these confidently to consumers?
- **Pricing complexity** – the Stakeholder product regime advocated the simplest of charging regimes. This has created a series of intractable issues of mismatching and cross-subsidy. But complex structures are very difficult to compare without detailed personalised illustrations. A good example of the issues arising are with fixed rate mortgages where significant guarantees are given to protect against rising interest rates but at a cost of significant arrangement fees and exit penalties. Does transparent charging allow for multiple charges? If so, at what point do they become too complex and therefore opaque? Is the ability to reduce them to a single comparable number acceptable - such as an APR? And is this still acceptable when they can only be illustrative unless specific to term, investment amount, health, etc.?
- **Pricing variability** - The practice of introducing at an attractive rate and then making them less competitive once funds have been won is well known. Because the price of the product is implicitly in the rate this represents variable pricing. This also occurs in some other products such as reviewable rate protection products and even, potentially in NEST. Do there need to be some decency limits around this or is a tracker approach (linked to the bank base rate) more straightforward?
- **Needs of specific sub-groups** – there are to be challenges around extending the concepts of simple/safer/straightforward to the needs of specific sub-groups. The safer products approach highlights this with specific provision for those with ethical or faith requirements.
- **Complex literature, terms and conditions** – A consistent call is for simple and clear literature. However, this can conflict with requirements created by disclosure or tax regulation. The introduction of devices such as key facts and summary boxes seeks to address these issues and there are numerous initiatives to improve disclosure and literature. There may be limited scope to influence this area given the prescriptive nature of much product documentation but requiring plain language guides with clear signposting for consumers is still possible.

From the individual criteria analysis, a summary was created to map the product space covered by each of the approaches. This is set out in Figure 1.

The first analysis output summarised the detailed analysis. The overall rating is constructed as follows:

- If all the criteria are scored as 'meets', then the product is rated as 'meets'.
- If any criterion is scored as 'fails', then the product scores as 'fails'.
- If none of the criteria are scored as 'fails' but one or more are scored as 'partially', then the product scores as 'partially'.

This first analysis suggested a number of conclusions:

- The two simple criteria in the simple products proposals result in a very clear boundary with no ‘partially’ assessments and the largest coverage of insurance products⁷ but the largest number of ‘fails’ (10).
- The safer criteria result in no ‘meets’ but a large number of ‘partially’ assessments and a rather irregular boundary. There are slightly less fails (8) than for ‘simple’.
- The straightforward outcome criteria have the least ‘fails’ (6) and less ‘partially’ assessments but the boundary is still irregular.

Analysis Summary						
	Analysis Output			Amended Analysis		
	Simple	Safer	Straightforward Outcome	Simple	Safer	Straightforward Outcome
Insurance						
Motor	Meets	Partially	Meets	Meets	Meets	Meets
Household	Meets	Partially	Meets	Meets	Meets	Meets
Travel	Meets	Partially	Meets	Meets	Partially	Meets
Term Life	Meets	Partially	Meets	Meets	Meets	Meets
Income Protection	Meets	Partially	Partially	Meets	Partially	Partially
Critical Illness	Meets	Fails	Fails	Meets	Fails	Fails
Lending and Credit						
Personal Loan	Meets	Fails	Partially	Meets	Partially	Meets
Credit Card	Meets	Fails	Partially	Meets	Fails	Meets
Variable Rate Mortgage	Fails	Partially	Partially	Fails	Partially	Meets
Fixed Rate Mortgage	Fails	Partially	Partially	Fails	Partially	Meets
Lifetime Mortgage	Fails	Fails	Fails	Fails	Fails	Fails
Savings and Investments						
Deposit Account	Meets	Fails	Partially	Meets	Partially	Meets
Cash ISA	Meets	Partially	Partially	Meets	Partially	Meets
Building Society Bond	Meets	Fails	Meets	Meets	Meets	Meets
Stocks and Shares ISA - Managed Fund	Fails	Fails	Fails	Fails	Fails	Fails
Stocks and Shares ISA - FTSE Tracker	Fails	Fails	Partially	Fails	Fails	Meets
Stakeholder Pension	Fails	Partially	Fails	Fails	Meets	Meets
NEST account	Fails	Partially	Fails	Fails	Meets	Meets
Conventional Pension Annuity	Fails	Partially	Partially	Fails	Partially	Meets
Indexed Annuity	Fails	Partially	Partially	Fails	Partially	Meets
With-Profit Annuity	Fails	Fails	Fails	Fails	Fails	Fails
Amended analysis changes						
Safer Products						
	1 Relax 'other beliefs' requirement					
	2 Relax FSCS requirement for non-regulated credit products and NEST					
	3 Ensure all savings/investment products come with an ISA wrapper option					
	4 Relax regular savings for bonds where additional investments can be made with small contributions (such as £25)					
	5 Accept NEST approach as effectively passive					
	6 Relax 'plain and clear' when complexity solely present where required by legislation					
Straightforward Product						
	1 Ensure that interest rates advertised on unsecured lending/credit cards are widely available					
	2 Ensure variable rate mortgages have base rate tracker or guarantee					
	3 Ensure fixed rate mortgage has simple fee structure and APR quoted for each year of fix period					
	4 Ensure deposit accounts have base rate tracker or guarantee					
	5 Ensure charges limited to initial charge and (fully inclusive) amc and that projections fully reflect these					
	6 Allow for detailed Ts&Cs required by (e.g. UCITS) regulations, provided key terms are covered in plain english document					
	7 Create/recognise a new pensions index with multi-asset fund and standardised 'lifestyling' prior to nominated retirement date					
	8 Make the NEST fund a/the de-facto pensions index					
	9 Provide clear questions in product application to default appropriate customers to joint life and enhanced/impaired rating options					
	10 Make an indexed annuity the default option					

Figure 1: Product Analysis Summary

⁷ Created largely by the assumption that advice under ICOB is allowable against the ‘no regulated advice’ criterion

The amended analysis was created to see whether some variations to address some the issues identified in the detailed analysis would result in a clearer definition of the space for the safer and the straightforward criteria. The changes applied are listed in Figure 1 and result in a much clearer picture with 'Simple' covering the smallest product space and 'Straightforward Outcome' the largest space.

Safer products have the least clear boundary. This is largely due to issues that arise from the low charges criteria which is difficult to satisfy across a wide product class.

The amendments made to achieve these clearer definitions for safer and straightforward suggest themselves as further qualifications that may be helpful to operationalise the criteria.

6. CREATING A REGIME AND COMMERCIAL SUPPORT

The main focus of the work has been on the criteria and product analysis but in process of carrying out the analysis and discussions with other interested parties, some ideas have been suggested to stimulate further debate on the questions of:

- how a regime for such products might be established, maintained and policed and
- what might make it attractive for financial services firms to offer such products.

In the responses to HM Treasury's simple products consultation, despite the suggestion of a voluntary code to support a simple products regime, the call has been for a regime constructed under the auspices of the FSA or successor bodies.

There are some obvious attractions to this approach. It provides a prescriptive and rules-based regulation with greater certainty for providers and the reassurance of a full tool kit of regulatory instruments to police and enforce the regime for consumer bodies. The thrust of the Straightforward Outcomes is towards achieving good customer outcomes which is a natural fit with conduct regulation.

But there may also issues. If the regulator is the standards creator and approver as well as the supervisor, conflicts may arise between these two roles that may present difficulties – especially once a regime is in place. It may allow less flexibility to adapt and change standards to address changes in economic, industry know-how and consumer attitudes. The regulator may also find its scope constrained by the effects of its establishing legislation and the broader European regulatory regime.

Another possible way forward would be to create a standards awarding body that brings together industry (both providers and advisors) and consumer groups to thrash out the kind of criteria and design principles discussed in this paper to see if a consensus can be achieved and a stable environment for a product regime created. This could then be supported by the regulator through existing regulatory mechanisms such as approved guidance.

As David Severn observes in his paper, the industry's experience with simpler/safer products has been almost all negative, so the question of how to get commercial support is challenging. But two good starting points are HM Treasury's concerns about the unintended consequences of price caps and the idea of a standards body that could form consensus between industry and consumer groups, supported by the regulator.

With this as a foundation, it is possible to see commercial support for the regime if:

- a brand can be created around such products that is seen as straightforward, reputable and valued by consumers and media/commentators

- such products can be marketed and distributed by providers/advisors via a less expensive sales regime
- demand can be generated for such products by endorsement and recommendations from the National Money Advice Service
- such products provide a generic range that doesn't cut across the providers brand and meets basic needs without preventing the opportunity to up sell to more complex products where appropriate

This paper is seen as a stepping stone to set up a broader debate about:

- how the balance of different criteria affects the resulting product/distribution solution,
- the risk appetite of government, regulators, providers and consumer bodies around these products and the surrounding promotion/advice/guidance and
- the potential market they could address for from a public policy and a commercial perspective.

Nick Hurman

June 2011

Appendix 1: Background on Nick Hurman

Nick is an independent industry professional who has been closely involved in the RDR access debate. In his work with AEGON⁸, he researched how consumers would design access to products and advice if given a clean sheet of paper and formed the basis of a series of engagement activities and events with stakeholders such as the FSA, FSCP, HMT, Which? and the ABI. He has also acted as research director for the Resolution Foundation developing the case and business model for a national generic advice service subsequently taken forward in the Thoresen review. Recent work published by the CII in March 2011⁹, researched savings incentives and consumers' motivations for savings.

Nick has 30 years of experience of retail financial services both as an industry executive and consultant with organisations such as Legal & General, Price Waterhouse, NPI, London Life and AEGON UK. As Director of SAGA's financial services arm, he was responsible for the provision of a wide-range of retail financial services to their extensive customer base covering banking and savings products, investment products and services, annuities and equity release as well as independent financial advice. As an independent consultant, he has also worked in the public policy arena with the DWP, PHSO and the CII and with a number of research and actuarial consultancies.

Nick holds an MBA from City (now CASS) business school in addition to his BSc from University College, Durham and is a Fellow of the Chartered Insurance Institute and a Chartered Insurer.

⁸ <http://www.aegon.co.uk/industry/shaping-our-industry/research/opinion-leader-research/index.html> .

⁹ http://www.knowledge.cii.co.uk/system/files/TP52_Hurman_Effective_Incentives_for_Saving_16Mar2011_0.pdf

Appendix 2: Detailed Product Analysis

Product Assessment Matrix : Insurance						
Product	Household	Motor	Travel	Term Life	Income Protection	Critical Illness
Simple Products						
No risks to capital	N/A	N/A	N/A	N/A	N/A	N/A
No regulated advice	Meets (9)	Meets (9)	Meets(9)	Meets(9)	Meets(9)	Meets(9)
Safer Products						
Regular Savings	N/A	N/A	N/A	N/A	N/A	N/A
Low charges	Meets (6)	Meets (6)	Rates vary (7)	Meets (10)	Limited market (13)	Limited Market (13)
Passive Investment	N/A	N/A	N/A	N/A	N/A	N/A
Diversified assets	N/A	N/A	N/A	N/A	N/A	N/A
Tax wrapper	N/A	N/A	N/A	N/A	N/A	N/A
'Pure' product	Meets	Meets	Meets	Meets	Meets	Meets
Plain, clear	Meets	Meets	Meets	Meets	Definition issues (14)	Complex exclusions (15)
Ethical	Not Islamic (1)	Not Islamic (1)	Not Islamic (1)	Not Islamic (1)	Not Islamic (1)	Not Islamic (1)
FSCS cover	Meets	Meets	Meets	Meets	Meets	Meets
Straightforward Outcome						
Well understood outcomes	Meets (2)	Meets	Meets (8)	Meets	Definition issues (14)	Complex exclusions (15)
Transparent charging	Meets (6)	Meets (6)	Meets	Meets	Meets	Meets
Fair value	Meets (3)	Meets	Meets	Meets (12)	Limited market (13)	Limited market (13)
Clear and fair Ts & Cs throughout contract	Meets (4)	Meets (4)	Meets (4)	Meets	Definition issues (14)	Complex exclusions (15)
Clear and fair restrictions on exit	Meets (5)	Meets (5)	Meets (5)	Meets (11)	Meets (11)	Meets (6)
Scheme or guarantee to limit counterparty risk	Meets	Meets	Meets	Meets	Meets	Meets
Conservative financial construction	Meets	Meets	Meets	Meets	Meets	Meets
Ombudsman Scheme	Meets	Meets	Meets	Meets	Meets	Meets
Notes						
	1 Conventional insurance products not compliant with Islamic principles					
	2 Issues can arise from consumers having to provide buildings and contents sums insured. These can be largely avoided by bedroom rating for many properties					
	3 Wide range of providers and many, widely advertised comparison sites.					
	4 Codes of conduct work together with FOS feedback to provide robust regime					
	5 Some administration costs					
	6 Charges inclusive in premium and competitive market. Issues can arise with less competitive renewal rates but can be addressed by some shopping around					
	7 Rates can vary widely - especially if travel insurance is packaged into overall holiday costs. Medical underwriting can also result in significantly higher premiums					
	8 Issues can arise for consumers over pre-existing medical conditions					
	9 ICOB requires statement of demand and needs based on information supplied by the customer. If giving advice, reasonable care must be taken to ensure suitability.					
	10 Charges inclusive in the premium. Term assurance is a competitive market but issues can arise where personal underwriting and rating is required.					
	11 There could be an argument that the level premium system creates a hidden charge as the mortality costs would normally be less than premiums collected but this is a very technical point.					
	12 Issues can arise where term assurance purchase is linked to a mortgage and does not attract so much attention from consumer.					
	13 Much IP and most CI cover is sold as an additional benefit on Term Assurance Policies. Standalone policies are available but are not widely purchased. These are less competitive markets.					
	14 Problems can arise with definitions (e.g. any rather than usual occupation) and also with defining/maintaining sufficient cover. 'Usual' occupation and indexing of premiums and claims can help here. Issues can also arise with non-disclosure of pre-existing medical conditions that can result in problems at claim.					
	15 Whilst standard wordings are established in the ABI code of practice, the definitions of illnesses covered are technical and not straightforward - and can change with medical progress.					

Product Assessment Matrix : Lending and credit					
Product	Personal Loan	Credit Card	Mortgages		
			(a) Variable Rate	(b) Fixed Rate	(c) Lifetime Mortgage
Simple Products					
No risks to capital	N/A	N/A	Fails (7)	Fails (7)	Fails (7)
No regulated advice	Meets	Meets	Fails (8)	Fails (8)	Fails (8)
Safer Products					
Regular Savings	N/A	N/A	N/A	N/A	N/A
Low charges	Rates vary (1)	Fails (4)	Rates vary (1)	Rates vary (10)	Rates vary (10)
Passive Investment	N/A	N/A	N/A	N/A	N/A
Diversified assets	N/A	N/A	N/A	N/A	N/A
Tax wrapper	N/A	N/A	N/A	N/A	N/A
'Pure' product	Meets	Fails (5)	Meets	Meets	Meets
Plain, clear	Meets	Meets	Meets	Meets	Complex Ts & Cs (13)
Ethical	Not Islamic (2)	Not Islamic (2)	Not Islamic (2)	Not Islamic (2)	Not Islamic (2)
FSCS cover	Fails	Fails	Meets	Meets	Meets
Straightforward Outcome					
Well understood outcomes	Meets	Meets (6)	Rates unpredictable (9)	Meets	Complex context (14)
Transparent charging	Meets (3)	Meets (3)	Meets (3)	Fees complexity (11)	Fees complexity (11)
Fair value	Rates vary (1)	Rates vary (1)	Rates vary (1)	Fees complexity (11)	Fees complexity (11)
Clear and fair Ts & Cs throughout contract	Meets	Meets	Meets	Meets	Meets
Clear and fair restrictions on exit	Meets	Meets	Meets	Significant fees (12)	Significant fees (12)
Scheme or guarantee to limit counterparty risk	Meets	Meets	Meets	Meets	Meets
Conservative financial construction	Meets	Meets	Meets	Meets	Funding complex (15)
Ombudsman Scheme	Meets	Meets	Meets	Meets	Meets
Notes					
	1 Rates vary significantly between providers and based on status. Charges are implicit in the interest rate.				
	2 Conventional loan products are not compliant with Islamic principles.				
	3 Rates are readily comparable using APRs but issues can arise with typical rates which may not reflect actual rates after underwriting.				
	4 Credit cards generally offer poor value when compared to personal loans.				
	5 Mixes money transmission with loan product				
	6 Possible issues with balance transfer offers and sequencing of applying money				
	7 Secured lending so charge over property				
	8 Suitability advice is regulated under MCOB				
	9 Rate of interest clear up front but will vary. Issues arise if not remaining competitive. Bank rate tracker may be clearer?				
	10 Rates vary significantly between providers and based on status. Charges are implicit in the interest rate but initial fees also apply.				
	11 Comparing offers can be complex with combinations of interest rates and fees.				
	12 Exit fees can be substantial in relation to capital and interest amounts.				
	13 Examples include partial repayments, insurance and other notifications required.				
	14 The context of inheritance and the effects of unpredictable longevity mean that the product needs advice to implement.				
	15 Complex funding structures support these products. Issues can arise for further drawdowns as regards rates/availability.				

Product Assessment Matrix : Savings and Investments										
Product	Deposit account	Cash ISA	Building Society Bond	Stocks & Shares ISA		Pension		Pension Annuity		
				(a) Managed Fund	(b) FTSE tracker	(a) Stakeholder	(b) NEST account	(a) Conventional	(b) Indexed	(c) With Profit
Simple Products										
No risks to capital	Meets	Meets	Meets	Fails	Fails	Fails	Fails	N/A	N/A	N/A
No regulated advice	Meets	Meets	Meets	Fails	Fails	Fails	Meets (35)	Fails	Fails	Fails
Safer Products										
Regular Savings	Meets	Meets	Single investment (9)	Meets	Meets	Meets	Meets	N/A	N/A	N/A
Low charges	Rates vary (1)	Rates vary (7)	Meets (10)	Rates vary (46)	Meets	Meets	Meets (36)	Meets (19)	Partly meets (27)	Unclear (28)
Passive Investment	N/A	N/A	N/A	Fails	Meets	Meets (16)	Largely meets (37)	N/A	N/A	Fails (30)
Diversified assets	N/A	N/A	N/A	Meets	UK Equities only	Meets (24)	Meets	N/A	N/A	Partly Meets (34)
Tax wrapper	No wrapper	Meets	No wrapper	Meets	Meets	Meets	Meets	N/A	N/A	N/A
'Pure' product	Meets	Meets	Meets	Meets	Meets	Meets	Meets	Meets	Meets	Fails (31)
Plain, clear	Meets	Meets	Meets	Complex docs (12)	Complex docs (12)	Complex docs (12)	Not yet known	Default to advice?(45)	Default to advice?(45)	Complex (29)
Ethical	Not Islamic (2)	Not Islamic (2)	Not Islamic (2)	No ethical/islamic(13)	No ethical/islamic(13)	No islamic option	Meets (38)	Not islamic (20)	Not islamic (20)	Not islamic (20)
FSCS cover	Meets	Meets	Meets	Meets	Meets	Meets	Technically fails (39)	Meets	Meets	Meets
Straightforward Outcome										
Well understood outcomes	Meets (3)	Meets (3)	Meets	Fails (47)	Meets (14)	Fails (24)	Fails (40)	Meets (25)	Meets (25)	Fails (32)
Transparent charging	Meets (4)	Meets (4)	Meets (4)	Multiple charges (15)	Multiple charges (15)	Meets (16)	Partly meets (41)	Meets (21)	Meets (21)	Complex (29)
Fair value	Meets (5)	Meets (5)	Meets (5)	Meets (5)	Meets (5)	Meets (17)	Probably meets (42)	Partly Meets (22)	Partly Meets (22)	Unclear (28)
Clear and fair Ts & Cs throughout contract	Meets (26)	Meets (26)	Meets	Partly Meets (12)	Partly Meets (12)	Partly Meets (12)	Not yet known (43)	Meets	Meets	Complex (29)
Clear and fair restrictions on exit	Meets (6)	Meets (8)	Meets (11)	Meets (8)	Meets (8)	Meets (18)	Not yet known (43)	Meets (23)	Meets (23)	Unclear (33)
Scheme or guarantee to limit counterparty risk	Meets	Meets	Meets	Meets	Meets	Meets	Meets (44)	Meets	Meets	Meets
Conservative financial construction	Meets	Meets	Meets	Meets	Meets	Meets	Meets	Meets	Meets	Fails (34)
Ombudsman Scheme	Meets	Meets	Meets	Meets	Meets	Meets	Meets	Meets	Meets	Meets

Notes									
1	Charge is implicit in savings rate. Low rates have same effect high charges.								
2	Paying conventional interest not Islamic. Asset not explicit, ethical considerations only extend to deposit taker								
3	Rate of interest clear up front but will vary. Issues arise if not remaining competitive. Bank rate tracker may be clearer?								
4	Rates clear to compare (via APR) even though charges are implicit								
5	Broad market and plenty of choice and comparison/monitoring information								
6	Only issue here is around variants that penalise withdrawals with lower interest rates								
7	As for (1) but Cash ISA rates tend to higher as the money is 'stickier' due to the loss of tax shelter if withdrawn								
8	Different considerations here due to the loss of tax shelter. But rules are arguably fairly clear and straightforward								
9	Though technically single investments, additional bonds can be bought, often with £1 minimum investments								
10	Charge is still implicit but with a fixed rate, this gives more certainty.								
11	Fixed term is clear at outset and full withdrawal is possible typically with loss of 1 yrs interest								
12	The paperwork associated with unit trust/OEIC investments is extensive and technical								
13	FTSE4Good trackers are available from some providers								
14	Capital return is clear - though uncertain. Income element arguably less so.								
15	Charges can include initial charge, AMC + Extra Expenses.								
16	AMC only - protected by regulation								
17	Clear pricing and capped by regulation								
18	No exit penalties - enforced by Stakeholder regulation. Generally (currently) there is no access until 55 - but restricted access widely understood (even if many think it is [still] to age 50)								
19	Charges are implicit in the annuity rate. Rates are easily comparable. The annuity market is regarded by regulators as competitive.								
20	Based on interest bearing investments - Islamic annuities do exist (e.g. Malaysia)								
21	Implicit in rate - rates are readily comparable								
22	Competitive market for Open Market Option but retained annuities tend to be less competitive. Consumers with health issues may miss better rates if not aware of enhanced/impaired markets.								
23	There is no exit but this is clear upfront and is arguably well understood.								
24	Based on typical default managed fund. There are usually tracker options available.								
25	The declining purchasing power of a fixed annuity could arguably be a surprise - an indexed annuity could be an alternative?								
26	Issues arise where there are enhanced rates available for initial periods or for other conditions (e.g. limited withdrawals)								
27	Indexed annuities are rarely selected by consumers and so the rates have much less exposure to competitive pressures								
28	With Profit annuities are both a small proportion of the market and charges are implicit								
29	The operation of the with-profits mechanism is complex, has wide cross-subsidies and is reliant on actuarial judgement								
30	Investment returns based on with-profit fund that is actively managed								
31	Mixes longevity protection with investment in order to address inflation risk								
32	Whilst there is a guaranteed minimum level of income, levels of income vary dependent on assumed and actual bonus rates in an unpredictable way.								
33	The operation of the assumed bonus rate can mean that unexpected outcomes can be very difficult to unwind								
34	Following on from 33 above, the mismatch between assumed and actual bonus rates can create unexpectedly leveraged fluctuations in levels of income								
35	As an occupational scheme written under trust, advice on NEST falls outside of COBS								
36	Based on pre-announced level equivalent to approximately 0.5%amc								
37	NEST's statement of investment principles is that passive investment management - where available - generally delivers better value for money than active selection								
38	Ethical and Sharia investment options to be offered								
39	As an occupational scheme it is not covered by the FSCS, but as the settlor is the Secretary for Work and Pensions, it is effectively state backed.								
40	Objective of the default fund is to beat (CPI) inflation but this is achieved by a 'lifestyled' multi-asset mix in largely passive pooled funds.								
41	Charging mechanism and levels clear at outset but trustees expect to vary these in light of experience. But members have option to transfer to other pension schemes.								
42	Pre-announced levels meet - but some uncertainty over future levels. But members have option to transfer.								
43	Expected to meet								
44	Effectively underwritten by the state								
45	David Severn argues that one-time, irrevocable nature of annuities suggests default position should be to get advice								
46	Rates for actively managed funds tend to be higher than those for passive and can have wider variations.								
47	No external benchmark to assess or track performance of fund manager's decisions (excepting broad sector benchmarks)								