

## HM Treasury

### *Simple financial products: a consultation*

#### A Response by Credit Action

#### Background

Credit Action is a national money education charity (registered Charity in England & Wales No. 1106941) established in 1994.

In January 2009 we also created our dedicated Welsh arm, Credit Action Cymru.

We offer a range of resources, tools and training to help everybody handle their money well, and to inform consumers so that they can make informed decisions about their personal finances.

Credit Action operates at a national level through advocacy, collaboration and partnerships with various groups and companies as well as at a local level through a variety of targeted projects, with a particular emphasis on those most vulnerable to financial difficulties and over-indebtedness. Through its work Credit Action reaches over 650,000 UK citizens every year.

We try and help as many people as possible avoid the pain of debt. However we recognise many contacting us will be in trouble already, so we work in partnership with the major debt counselling charity the Consumer Credit Counselling Service (Registered Charity No. 1016630).

## **Opening Comments**

As an organisation which is strongly committed to helping people manage their money effectively, Credit Action takes a keen interest in all initiatives which aim to build consumers' financial capability and support them in making appropriate financial choices. We welcome the Government's clear intent to promote these principles, which underpin its proposals for simple products.

We believe that the simple products concept is one which has the potential to enhance consumers' experience of financial services and improve their ability to engage successfully with the market, but feel that in order to be successful this is a scheme which must be designed and managed intelligently. In our response to this consultation we outline the key areas which, in our opinion, the proposed range of simple products must address successfully in order to be effective and meet consumers' needs.

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

We are encouraged by the Government's general vision for the simple products range, and feel that this broadly covers the right areas. The desire to 'support consumers in their decision making' (paragraph 3.1) and design products which are 'as straightforward as possible, to aid consumer understanding of the different features of each product' (paragraph 3.2) represents a good starting point in our view. Equally, we feel that the three core objectives outlined in paragraph 3.6 provide sensible guidelines for the development of the scheme.

We also believe that successfully enabling simple products to act as a benchmark across non-simple products (as raised in paragraph 3.5) is a central part of their potential value to consumers – we offer some more detailed suggestion regarding this in our response to Question 5.

In addition, we feel that building a strong brand for simple products will be fundamental to their success. While the role of branding is mentioned at points in the consultation's review of the Government's overall vision on page 11 we would stress that, in our view, a strong brand is absolutely crucial to ensuring that the concept is genuinely appealing to consumers, and therefore that simple products are able to operate effectively in the marketplace. We offer further thoughts on this in our response to Question 9.

## **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?**

In order for simple products to operate effectively as a benchmark, it is essential that consumers understand not only the features of the simple product itself, but also how these differ from the features of other (non-simple) products on the market.

In our opinion, ensuring that such information is presented as clearly as possible is crucial to success in this respect. As the consultation already recognises, the power of the simple products concept lies not simply in the intrinsic value of the product itself, but also in its capacity to enable choices to be framed in a helpful way – the manner in which information is presented to the consumer is fundamental to this.

We would suggest that one of the best ways of drawing comparisons between the features of a simple product and a non-simple product is to encourage the use of some kind of standard presentational format by providers, such as:

non-simple product = simple product + additional features

In our view, this sort of format would enable consumers to easily see how a particular product differed from the simple range, and the sorts of additional features they should expect. The role of a simple product as a benchmark or comparator is clear in this model, and fulfils the Government's aim of 'providing a point of reference against other products on the market' (paragraph 3.5).

### **Question 9: Should someone police the standardisation of products?**

We recognise that, as paragraph 3.14 outlines, full standardisation across all simple products may not be possible as this could potentially undermine the commercial viability of the scheme. However, we feel that from a consumer's point of view, some level of consistency is important as this facilitates easy comparison – otherwise the role of simple products as a benchmarking device largely becomes redundant. We would therefore agree with the statement made in paragraph 3.13 that 'Ideally, simple products would have a limited number of standardised features'.

Given the importance of some degree of standardisation to the success of the scheme, we believe it would be helpful if someone were to police or audit this, to ensure that certain minimum standards were being adhered to and that simple products were not becoming excessively heterogeneous across different providers.

We would also like to make two broader points concerning the relevance of standardisation and policing in two other areas, beyond the product features themselves. These are benchmarking information, and the correspondence that simple product providers send to customers.

Firstly, as outlined in our response to Question 5, we feel that it would be useful if information about the differences between simple and non-simple products were presented in a standardised way. Therefore, we feel that there may be a place for some policing of the way in which information, and in particular product benchmarking, is presented to consumers in order to ensure that this too is consistent across providers.

Secondly, we believe there may be value in standardising and auditing the correspondence that simple products providers send to their customers. We believe strongly that one of the key factors affecting consumers' experience of any financial product is the standard of correspondence they receive from their provider – if this is clear and easy to understand then, in our experience,

consumers are more likely to feel comfortable with the product. As an organisation, Credit Action currently operates a Quality Mark programme with certain lenders, under which we independently audit the correspondence that they send to customers to ensure this is not written in an excessively technical or intimidating way. We believe that, as a general principle, this is a concept which could also usefully be applied to simple products – given that the scheme intends to provide entry-level products which may potentially be taken up by those with little prior experience of dealing with financial services providers, we feel that some form of independent review of correspondence may be particularly appropriate.

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

In our opinion, the development of a strong brand for simple products will be essential to their success. In order for the simple products scheme to work as a voluntary initiative it is obviously crucial for them to be commercially viable, and this depends heavily on the way in which they are promoted. We believe that a strong brand which captures consumers' imaginations can be a powerful driver of commercial success.

The headline brand-name is likely to be very important in this respect. Paragraph 3.2 draws an analogy with supermarket ranges which carry labels such as 'essential' or 'basic', which we believe is a useful starting point. While we feel that consumers may not find the name 'basic' particularly appealing with regard to financial products, we believe that terms such as 'essential' or 'value' might have more success.

However, one label around which we believe a particularly strong brand identity could be constructed is 'vanilla'. The terms 'simple' and 'vanilla' products are often used interchangeably to describe the concept of an entry-level financial product, so a clear connection already exists between the term and the product it would be used to describe. In our opinion 'vanilla' also constitutes a more colourful and appealing label than generic terms such as 'basic', 'essential' or 'value', and is therefore more likely to make an impact with consumers themselves.

**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?**

We feel that there may be a particular place in the market for simple insurance products. We note that the Government has already identified protection products as an area where there is a noticeable gap in holdings, and proposes the development of simple life insurance, critical illness and income protection products in paragraph 3.23. However, we feel that there may be a case for incorporating further sorts of insurance products within the simple range.

In particular, the need for home contents insurance amongst the poorest households is regularly identified as a particular problem, and we feel this is an area in which simple products could

potentially play a role in furthering financial inclusion objectives. In 2007, a widely quoted study by the New Policy Institute and Friends Provident Foundation found that, according to figures from 2004-05, over 50% of the poorest fifth of households lacked home contents insurance (compared with 20% of households with average incomes and 10% of households in the richest fifth). This was a situation which, at the time, had been unchanged for the preceding five years.<sup>1</sup> Some organisations, notably the National Housing Federation with their My Home Contents Insurance scheme, have undertaken initiatives to help deal with this problem. However, we feel that it may be desirable for Government to at least explore ways in which the simple products concept could help contribute to addressing this issue.

In addition, we believe that there may also be a place for some form of simple credit card alongside deposit savings and protection products. The idea for a basic credit card was originally raised in the Department for Business, Innovation and Skills' 2009-10 consultation entitled *A Better Deal for Consumers – Review of the Regulation of Credit and Store Cards: A Consultation* (paragraph 6.12). In our response to this consultation we were supportive of this concept, suggesting that it had the potential to be particularly worthwhile for those who were either new to credit, had had a bad experience of managing credit in the past, or were members of social groups such as ex-offenders who had difficulty accessing credit.

In its March 2010 response to this consultation, the Department said at the time that it was 'of the view that there are many attractions to a basic credit card' (paragraph 73), although recognised that there were certain practical difficulties involved in bringing such an initiative to fruition.

We feel that there may still be a valuable place for a credit card product within the simple range. Indeed, Government itself recognises in the current simple products consultation that consumers can find it difficult to determine the best overall deal when it comes to purchasing a credit card, due to features which change during the lifetime of the product such as introductory interest rates (paragraph 2.2). We would therefore be keen to see further work taking place around the development of a simple credit card and, even if this were not part of the initial range of products offered, feel it is something that key stakeholders in the simple products scheme should build towards.

## **Contact**

For further information on the comments made in this response, please contact John Davies, Joanna Parsley or Richard Talbot by email at [office@creditaction.org.uk](mailto:office@creditaction.org.uk) or by telephone on 0207 380 3390.

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<sup>1</sup> *A Snapshot of Financial Inclusion: Policy and Practice in the UK 2007* (New Policy Institute), p. 16