CONSUMER CREDIT Counselling Service

A Registered Charity

**Response to HM Treasury consultation on simple financial products**

## Introduction

The Consumer Credit Counselling Service (CCCS) welcomes this opportunity to respond to HM Treasury's consultation on simple financial products.

CCCS is the UK's leading debt charity, helping hundreds of thousands of people every year through its national telephone service, ten regional centres and online counselling.

CCCS provides free and impartial counselling on personal budgeting, advice on the wise use of credit and, where appropriate, helps manage achievable plans to repay debts.

The charity delivers generic online money guidance through *Money Matters*, which aims to help people make confident decisions about their finances.

*Money Matters* delivers comprehensive tailored advice for individuals based on responses to a series of questions on household income, expenditure and any financial products you have. The service provides a step-by-step guide to taking control of your finances and general information on financial products including their pros and cons. Ten thousand people used this service in 2010.

The charity also delivers a unique online debt counselling service to around 130,000 people every year through *Debt Remedy*. A web support team of trained counsellors is on hand to guide the user through the process, but for the internet savvy, the system provides a fully-fledged self-help tool.

Some of our over 800 staff provide extra help for vulnerable clients while others take part in Outreach, a voluntary initiative to help disadvantaged people learn basic money skills. The charity provides a range of specialist facilities for its clients, including mortgage counselling, advice on welfare benefits, and support for people who are insolvent or facing repossession.

**Q1. The government would welcome general comments on the vision and objectives for a new regime of simple products.**

In our view, a suite of simple financial products would promote consumer understanding, encourage self-reliance and lead to better choices and greater competition. For example, clients at the end of a debt management plan (DMP) could move onto the next stage of their rehabilitation by being encouraged to think about how to start safeguarding their financial future.

It’s likely that the main challenge would be to ensure firms provide these products and offer them to their customers. As things stand, providers target and incentivise their staff to promote and sell their more complex and profitable products. If this were to continue under the new regime, it could inhibit access to simple products.

The impact of over-indebtedness means many households have reduced disposable incomes. This means that ‘core’ products should offer real value for money. Simple products should contribute to that.

While some consumers may have complex needs, that doesn’t mean the solutions need to be complex. Indeed, over-complexity actually adds to the need for advice or guidance, building costs into the system and narrowing access.

In general, people on lower- and middle-incomes have relatively simple, basic needs – for example, transactional accounts and insurance against risks – which can be met by objective guidance and a set of core simplified products.

**Q2. Should this work be led by industry and consumer groups and not government?**

While we agree that industry and consumer groups will play an important part in developing simple financial products, we believe that regulators and government should also be involved.

**Q3. How can industry and government ensure a voluntary set of standards offers sufficient protection for consumers?**

We believe that a voluntary set of standards will only work if firms face the threat of regulation for failing to meet them.

**Q4. Are there any reasons that simple products should have price caps or other standardised pricing features?**

We believe that price caps and/or standardised pricing features will help boost confidence in the simple products regime. Complexity in product design often undermines the ability of consumers to compare different products, reducing the trust consumers have in products and their providers. For instance, once you have introductory bonuses and penalties for early or frequent withdrawals from deposit savings accounts, the product becomes more complex and harder to compare. This can contribute to financial exclusion.

**Q5. 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?**

We support a procedure similar to Rule 64 that would make advisers justify their recommendations against the yardstick of a simple product.

This kind of rule would provide a baseline, making it easier to compare products and helping consumers to make better choices. We don’t see this type of rule as a threat to market volumes.

**Q6. 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?**

Simple products should be available to everyone; however we believe the particular groups to target include:

- Young consumers
- Financially vulnerable consumers
- Elderly consumers
- Consumers whose needs are not met by the current financial services market

**Q7. Is it practical or desirable to have a range of completely standardised products? Is standardisation more practical for some products than others?**

We believe there are probably only four or five products that could initially fall into the “Simple Product” brand.

- Current accounts
- Instant access savings accounts
- Life insurance only products
- Income protection insurance
- A ‘simple’ funeral plan
- A simple credit card with a low credit limit could ensure that consumers are not excluded from the advantages of Section 75 protection.

We believe “simple products” will not include pensions, for example, because there is no such thing as a simple pension. The same could be said for mortgages, long term investments, critical illness plans, whole of life plans, family income plans, etc. These are products where people will always require guidance or advice.

**Q8. Beyond standardisation what other measures could be used to help improve consumer understanding of product features?**

We believe consumers would benefit from a checklist that provides details of the key features that simple products meet, for example, whether they are tied to fixed or variable interest rates, withdrawal clauses, etc.

**Q9. Should someone “police” that standardisation of products?**

Yes – this could be done through the new Financial Conduct Authority or the banking code.

**Q10. How could the simple products brand be developed?**

To ensure the brand is trustworthy, simple products must meet clear and transparent criteria. They must 'do what they say on the tin' and be seen to be good value for money; otherwise the policy will not get off the ground.

One of the key issues will be how to ensure industry buy-in, i.e. what will be done to ensure firms provide these products and offer them to their customers. To this end, it's important that sales staff are properly trained so that they can offer simple products to consumers as and when appropriate.

**Q11. How can consumers be reassured that these products meet the required standards?**

The criteria must be standardised and openly advertised to the public as simple products for ease of comparison.

Some form of kitemarking would provide consumers with assurance that simple products are reliable and that they are not going to face unexpected penalty charges.

**Q12. 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?**

Yes, but there are other products that should also be included in the initial areas of focus:

- Current accounts
- Instant access savings accounts
- Life insurance only products – restricted to life and terminal illness only
- Income protection insurance
- Possibly, a 'simple' funeral plan
- A simple credit card with a low credit limit could ensure that consumers are not excluded from the advantages of Section 75 protection.

The types of features that would lend themselves to standardisation include: contingent charges, including withdrawal fees; investment limits; interest rates, including introductory rates; exclusions from cover.

**Q13. Do you have views on how simple financial products could be developed to benefit particular age groups or sections of the market?**

We do not have any views on this issue.

**Q14. 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 product lines.**

We are not well placed to comment on this issue.

**Q15. What would be the benefits and disadvantages of linking simple financial products to CFEB's national financial advice service, including within the financial health check?**

Linking simple products to CFEB's national financial advice service would provide a good basis for consumer understanding about the type(s) of financial product(s) that might meet their needs.

Simple products could also be linked to generic online money guidance from charitable advice groups, like CCCS *Money Matters*.

**Q16. Should the new regime of simple products be linked to regulated advice? If so, how might this work?**

The simple products regime should not be excluded from regulated advice.

On its own, product transparency will not be enough to protect consumers from bad practice. Salespeople need to be well-trained to recognise when simple products are appropriate for customers.

**Q17. The government would welcome evidence on the role of savings stakeholder products in the market and the effects of removing or keeping them.**

We do not have the expertise to comment on this issue.

**Q18. The government would welcome evidence on how the basic advice regime is working, if it is understood by consumers and profitable for providers.**

The CCCS helpline dealt with over 285,000 people in 2010, while 130,000 people sought advice through our online counselling service, *Debt Remedy*. Our experience as a debt charity is that consumers often don't understand important information about what they are signing up to due to over-complexity and 'hidden' charges. This reduces their ability to make informed choices and weakens trust in financial service providers.

By contrast, counsellors are often the first to inform clients about the availability and benefit of, for example, a basic bank account.

**Q19. 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.**

We believe that simple products need to be clearly demarcated so that consumers can be confident of what they are about.

Consumer Credit Counselling Service
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