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Finance products need to be simplified to boost banking reputation

Simplified financial products should be introduced to boost the dented reputation of the industry, according to a report.

The review, which was commissioned by the treasury, has suggested that the new products could carry a kitemark badge to help identify them, while an independent body could be introduced to monitor standards.

A simple-term life insurance product, a simple easy-access savings account and a 30-day notice savings account are the first three products that should be introduced, the document said.

Researchers believe that around 15.5 million households and 29.4 million adults who have incomes between £15,000 and £50,000, could benefit from the proposals.

It is hoped that introducing these measures will also help to restore consumer trust in the sector following the mis-selling of payment protection insurance (PPI) scandal.

The recommendations, which are based on a consultation launched in 2010, have been made by an independent group led by Carol Sergeant, who is a former chief officer at Lloyds Banking Group.

She said: “When consumers arrive at the financial marketplace there should be simple processes and products available to allow them to make an informed and straightforward decision.”

The suggestions in the Sergeant Review of Simple Financial Products will remain open for further consultation before a final report is compiled in February next year.

The group has outlined that simplified measures should meet people’s basic needs “and no more” and be easy to understand and compare.

It stipulated that they should also be “non-advice” products that are able to buy directly from providers, with each one having the same terms and conditions.

The study was commissioned by the treasury following a report that showed many people believe the market is “overwhelmingly complicated” with a wide range of products that can be difficult to understand.

Financial Secretary to the Treasury Mark Hoban said: “The Government is committed to putting the consumer back at the heart of the financial system, but we understand that restoring public trust in financial products is not an easy task at the moment.

“I am pleased to say that ‘simple’ financial products offer a unique opportunity to demonstrate that products can both be easy to understand and meet customers’ most important financial needs.”

However, a review of the initiatives by professor James Devlin, from Nottingham University Business School, demonstrated that sales data indicated there had been an “ambivalent response” to the products.

Jonathan Davis, managing director of Jonathan Davis Wealth Management, said: “It has never been proved that simplified or lower cost products get consumers buying.

“We have had Stakeholder pensions for a very long time and they have not increased consumer investing in pensions. Another example is the USA where the bulk of consumers buy 30 year fixed rate mortgages. Nothing could be simpler. Also, the rates have never been lower. Yet, home loan numbers are still a fraction of peak levels.”