



Association of British Insurers

# Keeping it Simple: Simple Products

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## Context and Politics

- Protection gap
- Savings gap
- Pensions auto enrolment
- Welfare state changes
- Need for simple products – to reach the mass market

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## HMT View: In Detail

- Market can be prevented from working effectively if consumers unable to make sense of choices available
- Marginally different product features can hinder effective comparison, especially when features change during lifetime of product
- Many consumers lack confidence and capability to make effective financial decisions
- Comparison websites more popular, but consumers struggle to understand the trade-off between different product features beyond headline price
- Many consumers rely on friends and family for advice, this is unlikely to be best advice

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## Simple Products HMT Steering Group

- Industry bodies and consumer organisations. Chaired by Carol Sergeant.
- Recommendations to Mark Hoban, end July
- Focus is deposit based savings and, life and protection products

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## Simple Products Sub Groups

- Savings Product – BBA/BSA
- Protection Products – ABI
- Take to Market – MAS
- Governance – Consumer Focus

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## Simple Products Criteria

- Does what it says on the tin
- Capable of being sold without advice
- Good enough, not necessarily “best”
- Does no harm
- Transparent
  - pricing, features, explanations

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## Issues Arising

- Agreeing Criteria
- Certification/governance
- Regulatory treatment and environment
- Distribution
- Demand

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## Possible Products? Life Cover. Income Protection

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### Life Cover: Why the gap?

Reasons for not having life cover...

- 31% - say they don't need it
- 28% - can't afford it /too expensive
- 23% - haven't thought about it
- 8% - haven't got round to it
- 7% - don't trust insurance companies

And a few "don't knows"

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## Life Cover: Target Need

- People who currently do not have cover
- Entry level product / stepping stone
- Some cover better than no cover?
- Have a family
- Likely to be 25 - 50 years old
- Mass market demographic
- £20-40k household income

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## Life Cover: Products Already Out There

- UK Term cover lump sum
- South Africa – very small sum assured
- Dutch product – ‘good enough’

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## Life Cover: Possible Product

- Single life
- No bells & whistles (TI, WOP, GIOs)
- No max ages – what term?
- No exclusions (suicide?)
- Amount of cover
  - Fixed level lump sum payment
  - Sum assured cap for risk mitigation
  - Offer by £x monthly premium
- Premiums
  - Guaranteed premiums capped at say £20 a month
  - Firms compete on the cover they offer for £x premium
  - Premiums age banded? Smoker/non-smoker rates (disclosure issues?)
- Very targeted underwriting

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## Life Cover: Not So Simple

- Annually renewable like motor and house insurance – price increases as need grows. Potential health issues mean difficult to switch, guaranteed renewal on a reviewable premium basis – rejected as not simple!
- Whole of life rejected as purpose is protection, no investment element
- Accidental death cover only – rejected as doesn't meet 'good enough'

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## Income Protection: Can we keep it simple?

Issues...

- Interaction with means tested State benefits?
- What is the target market?
- Can the target market afford the product?

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## Income Protection: Possible Product

- Guaranteed premiums
- No financial underwriting at claim
- Fixed benefit of x% of earnings
- Own Occupation definition
- Single deferred period (1 month?)
- Max benefit term? (1 or 2 years?)
- Very targeted underwriting

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## Simplicity Analysis

Which? Do's...	Life	IP
A clear pricing/return structure which makes it simple for consumers to compare one products against another	Yes	Yes
Transparent, proportionate and predictable ancillary fees and charges that do not impose unnecessary burdens on consumers	Yes	Yes
Controls to limit changes to prices/returns or terms of the product so that consumers are not surprised by sudden changes	Yes	Yes
Reasonable limited number of exclusions which are clearly explained and understandable.	Yes	?
Standardised product names/labels that clearly identify them as simple products	Yes	Yes
Essential product features that are simply explained, useful for the consumer and meet the needs of the target market.	Yes	?
Standardised disclosures / summary boxes so that all firms are using the same template and wording for disclosures to enable consumers to compare products	Yes	Yes
Simple products ranges for individual firms that enable consumers to identify the most appropriate product for them.	?	?

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## What About Long Term Care?

- Definitely a need
- But is there demand?
- Very political issue
- Watch this space

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## Issue: Recap

- Demand and Distribution
  - MAS?
- Certification/Governance
  - in what way?
  - by whom?
- Regulatory Environment
  - FSA/FCA
  - FOS
  - Europe

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## Next Steps

- Simple Product Steering group in July
- Party conferences in September
- Role of MAS will be crucial
- As will position of FSA/FCA
- And of FOS

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# QUESTIONS

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