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**The Stakeholder Product Brand and  
Decision Making in Retail Financial  
Services**

## **The Stakeholder Product Brand and Decision Making in Retail Financial Services**

### **Abstract**

*Stakeholder products were introduced by the UK Government to help assist decision making in retail financial services. Such products are targeted in particular at low to middle income consumers and those in a position of vulnerability/weakness in personal finance markets due to low expertise and familiarity and a lack of interest and involvement. The current study offers a detailed investigation into whether the Stakeholder policy initiative is likely to appeal to the specified target market and, hence, help the government fulfil its objectives. A sample of 1002 consumers is employed in a quantitative study. Findings show that the Stakeholder product brand enjoys a relatively high level of general acceptance, but that it does not resonate particularly with the target market. The Stakeholder product brand is likely to be recognized as useful in aiding decision making by high involvement consumers, as well as those consumers who are more familiar with financial services. Those who suffer from the illusion of expertise have marginally less positive attitudes towards the Stakeholder brand when compared to other expertise groups. The data is indicative of few meaningful relationships between demographic variables and attitudes towards Stakeholder products. Policy implications are highlighted.*

### **Key Words:**

*Stakeholder products, Public Policy, Financial Services, Personal Finance, Consumer Protection*

## **The Stakeholder Product Brand and Decision Making in Retail Financial Services**

### **The Policy Context**

This paper provides an evaluation of an important element of Government policy in the area of financial services aimed at helping consumers to make more informed decisions and to engage to a greater degree with financial services. The paper focuses in particular on the Stakeholder product initiative, which will be introduced and explained after a brief exposition of the main challenges that policymakers and consumers face in financial services markets.

In the UK, as in many other countries, policy makers are concerned that many consumers lack interest in, and have limited understanding of, financial services (HM Treasury, 2002). In addition, a detailed review of the retail savings and investment sector (HM Treasury, 2002) highlighted a high degree of product complexity and opacity in the marketplace, also noted by the Financial Services Authority (FSA) (FSA, 2003), which exacerbates the problems faced by consumers in financial services markets. Potentially detrimental outcomes of limited understanding and a lack of transparency in the marketplace include "mis-buying" by consumers, as they choose products which are inappropriate for their needs (Johnson, 2000) and even a lack of adequate provision by consumers as they withdraw from the market (Noble and Knights, 2003). In such circumstances, mis-selling is also more likely to occur as firms and their agents exploit limited consumer understanding, with the result that public confidence in financial services markets may be undermined. Under-provision, known in the UK as "the savings

gap”, has been estimated at £27 billion per annum (Association of British Insurers, 2002), which represents the difference between the amount being saved by individuals and that required to fund projected future commitments and retirement. The level of national savings has been identified as lower than that necessary for the current generation to fund itself in retirement (Khoman and Weale 2006). With respect to mis-selling, the Financial Services Consumer Panel, a body established by the FSA under the Financial Services and Markets Act 2000 to represent the interests of consumers, notes in its annual report of 2003/04 “far too much of the industry is still characterized by mis-selling, misleading advertising and a failure to treat customers fairly” (Financial Services Consumer Panel, 2004; Pg 3). More recently, the Panel commented that the sector continues to be “complex, confusing and more expensive for consumers than it ought to be” (Financial Services Consumer Panel, 2008; Pg 2). Finally, the potential failure of firms to treat customers fairly and the resultant need for regulatory encouragement has also been recognized by policymakers and incorporated into consumer protection policy (FSA, 2007).

### **Stakeholder Products**

It is perhaps not surprising, therefore, that the UK Government introduced policy initiatives aimed at benchmarking or stipulating simplified financial services product specifications, with the objective of helping consumers make better, more informed decisions (HM Treasury, 2002; 2003). One highly significant policy development aimed at assisting consumers in making decisions more aligned to their interests is the introduction of the “**Stakeholder**” product brand (hereafter SPB). The SPB indicates that

a product is designed as simple, price-controlled and regulated, or benchmarked and can be provided through a simplified sales process (Johnson, 2000; HM Treasury, 2003). In the case of the SPB, the Government sets standards for charges, access and terms, including a cap on charges of 1.5% annually. The first SPB, namely pensions, have been available since April 2001 and the concept has been extended to include a cash fund, a stock market based mutual fund, a “with-profits” life assurance fund<sup>1</sup> and a child trust fund<sup>2</sup>. A stakeholder logo has been produced by the Government which companies can use in their marketing material in order to provide consumers with a “cue” to further assist their decision making.

Overall, the Government’s vision for retail financial services is to see a competitive and innovative market where: consumers can easily identify their financial needs and appropriate products; consumers can have confidence in those who provide advice on products; there are efficient providers of good value products that meet consumer needs; and there is better access for those on low to medium incomes (HM Treasury 2003). The SPB approach is clearly a major element of the Government’s strategy for improving the functioning of retail financial markets with the aim of increasing the quality of decision making by consumers in those markets.

## **The Target Market**

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<sup>1</sup> A with-profits policy is a policy where a bonus is added annually and once added is normally guaranteed, similar to a participating fund in the US.

<sup>2</sup> A child trust fund is a mutual fund investment with certain tax advantages designed to provide a lump sum for children once they reach 18 years of age.

Policy makers have unambiguously indicated the primary target market for SPB; low to medium income consumers, those with little experience of financial services, those with limited savings and pension provision and those in a position of vulnerability or weakness due to low expertise and/or a lack of interest or involvement (HM Treasury, 1998; Johnson, 2000; HM Treasury, 2002; HM Treasury 2003). In this respect, the Sandler review of medium to long term savings in the UK (HM Treasury, 2002) noted that lower income segments are particularly dissuaded from saving by marketplace complexity and opacity. Elsewhere, the same review notes that the economics of financial services distribution also make it difficult for “low to medium” income consumers to access products and advice. It is further argued that in the current political climate, which favours individual private provision over state intervention, benchmarked products will remain an important element of the Government’s approach for those on “relatively low incomes” (Johnson, 2000 pg 32). The Government previously indicated that benchmarked products are particularly suitable for those with little experience of financial services who are likely to have little to put away (HM Treasury, 1998). The Sandler review (HM Treasury, 2002) also discusses more general “consumer weakness”, where consumers who are less knowledgeable and experienced find themselves in a particularly detrimental position, unable to deal with the opaque and inconsistent language employed by providers or understand the benefits to be derived from engaging with financial services or the means of delivering them (HM Treasury, 2002). Other interested parties have characterized the target market in terms of consumers who lack a high level of “financial sophistication” (Association of Friendly Societies, 2003) and those who are relatively risk adverse (Financial Services Consumer Panel, 2003). Thus, it

is apparent that the SPB is targeted not only at low to medium income consumers, generally interpreted as households with an annual income of less than £30000 (approximately \$54000), but also at those deemed less sophisticated, weaker and more vulnerable generally due to their lack of expertise, experience and involvement.

### **Low Take-Up of Stakeholder Product Brands**

According to HM Treasury (2003), it is essential that SPB should appeal to the target market identified if the Government is to realize its core vision of providing better access to financial services markets for disadvantaged consumers. This is an important consideration, as reservations about the likely success of such products have been expressed by concerned parties. The Financial Services Consumer Panel (2003) stated that the most important element of SPB was the specified product's attraction to the target market. However, it was disappointed with the range and specification of SPB, indicative of scepticism that such products would appeal to the primary target market. The Association of British Insurers (2003) expressed concern that the target market for SPB remains unclear and that without a clear statement from the government of precise policy goals and expected outcomes the chances of success are limited. The National Consumer Council (2003) has also expressed concerns that SPB will not succeed in appealing to the target market identified. The NCC has particular concerns about the lack of consumer involvement in the specification of products, which in their opinion would have been the best way to ensure that the resultant products resonated with the target market. In addition, the general level of sales of SPB has been characterized as disappointingly low (The Guardian, 2005). The general lack of success and low take up

of SPB could be due to a number of factors. A lack of enthusiasm on the part of suppliers may help account for the relatively low level of sales. As fees and commissions are limited, then suppliers may limit the marketing and selling activity devoted to SPB. Alternatively, the relative lack of success may be due to the fact that the SPB approach is not suitable in that it does not appeal to the specified target market. It is this latter possibility that forms the focus of the investigation presented in this paper, which will analyze the degree to which the SPB approach is perceived to assist decision making by low to medium income consumers and those potentially in a position of vulnerability due to low levels on experience or familiarity, expertise and involvement in retail financial services markets.

## **Data and Methods**

### *Sample*

The data used in the study were collected by means of a questionnaire administered by telephone. A total of 1002 telephone interviews were carried out in the UK with the assistance of a professional market research agency. Random sampling techniques were employed using national telephone lists. Quotas were employed for key demographic variables such as gender and age to enhance the representativeness of the survey. Respondents were informed at the beginning of the interview that the survey focused on consumers' views on financial services markets and the complexity of financial services and that the survey was being carried out by a University Business School. It was hoped that mentioning the University would enhance the perception of independence of the study and would help re-assure participants that they were not being subjected to "selling

under the guise of research”. Table one provides details of the sample. For gender, the sample is reasonably representative of the UK population, which has slightly more females than males, according to the Advertising Association (2008). For social grade, for the UK population as a whole the AB group represents 23.8%, C1 27.3%, C2 21.2% and DE 27.7% (The Advertising Association, 2008). It is apparent that the sample is slightly under-representative at the extremes. The sample is reasonably representative in terms of age. Overall, it is apparent that the sample is reasonably representative of the population, which is perhaps not surprising given the professional assistance received during the collection of the data used for the study.

Table 1 about here

### *Measurement*

The telephone surveys were based upon a fully structured questionnaire, with the measurements required mainly taken from previous published research, with some scales developed by the researcher for the purposes of this study. Prior to being employed in the main study, two versions of the questionnaire were piloted by telephone using a random sample of fifty consumers to check whether consumers could understand the research questions and to gather feedback on the ordering and wording of questions. Subsequently, the version of the questionnaire which proved more accessible was utilized in the main study.

With respect to the measurement employed, the main dependent variable, a measure of how useful the SPB is perceived to be by consumers in aiding decision making when choosing financial services, was measured using a scale comprised of two items. In a section of the questionnaire designed to elicit views on how policy interventions may assist consumer decision making, respondents were asked whether in order to help them choose appropriate financial services; a) *“The Government should set minimum standards for some financial services products sold to consumers”* and b) *“The Government should set standards which show when a financial service offers customers a reasonable deal”*. In developing this measurement, previous literature concerning consumer attitudes to Government regulation more generally were reviewed (c.f. Barksdale, et al, 1982; Varadarajan and Thirunarayana, 1990; Taylor, et al, 2000) and provided some guidance. The first scale item was adapted from an item employed by Barksdale et al (1982) covering Government setting of standards for products and services, whilst the latter was developed by the researchers. A likert scale numbered one to seven was used to collect the data, anchored strongly disagree/strongly agree, with neutral also labelled. A seven point scale was employed. Colman, et al, (1997) suggest that odd numbered scales allowing a middle point are generally preferred. A seven point scale also represents a good compromise between discrimination in measurement and the potential for confusion amongst respondents. The factor mean for the scale was then employed as the dependent variable in the study.

Measures were also required for customer involvement, familiarity and expertise, as low levels of these constructs has been identified as a key marker of the target market for

SPB. Involvement was measured using a four item scale based on the measure employed by Mittal (1989) and similar in character to that used by Chandrashekar and Grewal (2003). The four scale items were: (i) *In selecting from many types of brands of financial services available in the marketplace: I would not care at all which one I would buy-I would care a great deal which one I would buy*, (ii) *Do you think that the various brands of a particular financial service available are all very alike or all very different: They are all very alike-They are all very different*. (iii) *How important is it for you to make the right choice: Not Important at all-Extremely Important* and (iv) *In selecting a financial service, how concerned would you be about the outcome of your choice: Not at all concerned-Very much concerned*. Again, a numerical scale of one to seven was used to collect responses. To aid subsequent analysis, the involvement scale was subject to k-means cluster analysis in SPSS, with a two cluster solution produced, as shown in table two.

With regard to familiarity and expertise, these constructs represent two distinct elements of customer knowledge (Alba and Hutchinson, 1987) and therefore must be measured separately. Also, expertise can be “objective” (measured by employing a test) or “subjective” (measured using self-evaluation) (Cordell, 1997). Therefore three measures were required, familiarity, objective expertise and subjective expertise. Familiarity was operationalized as cumulative product usage, similar to the approach of Bettman and Park (1980) and Johnson and Russo (1984). Subjects were presented with a list of nine financial services and were asked to indicate which services they had ever owned/used. The nine financial services were; *current (checking) account, savings account, personal*

*loan, credit card, home loan, life assurance, Individual Savings Account<sup>3</sup>, Pension Plan and Stock and Share Services.* Although not completely comprehensive, the list provides a broad range of financial services designed to meet differing needs in the market place. No judgment was made as to the suitability or desirability of the products for certain consumers as the measure sought merely to establish a respondent's previous exposure to financial services usage. Even if a respondent had previously used a product generally considered unsuitable, then this still represented exposure to financial services which would help increase familiarity. Subsequently, positive responses were totalled to provide an overall familiarity score between zero and nine. To facilitate subsequent analysis, the familiarity measure was subject to k-means cluster analysis in SPSS<sup>4</sup> and a two cluster solution was produced, representing high and low familiarity groups. Details are shown in table two.

Objective expertise was tested using four questions with a yes/no/don't know response elicited, and subjects received a mark for each correct answer. Therefore, the subjects' score for objective expertise varied between zero and four. In using an objective test, the approach was similar to that employed by Park et al, (1994). The four questions employed, which were specific to the context of the UK, were (correct answers in brackets): (i) *A cash ISA is subject to income tax (no)*, (ii) *Unit trusts are traded on the stock exchange (no)*, (iii) *Home insurance is a form of general insurance (yes)* and (iv) *An annuity provides a regular income (yes)*. The test was designed to cover a broad range of financial services expertise, including areas directly relevant to the SPB

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<sup>3</sup> A savings/investment vehicle with tax advantages and annual contribution limits

<sup>4</sup> A two cluster solution was chosen for each cluster analysis employed in the study for reasons of expediency and in order to keep subsequent investigation tractable.

initiative, as well as others, to arrive at a comprehensive measure of objective knowledge of the financial services domain. Subjective expertise was measured using a four item scale taken from Chiou et al, (2002) and was similar to the measurement adopted by Park, et al (1994). Four scale items were employed as follows; (i) *Compared to the average person, my knowledge of financial services is very extensive*, (ii) *Compared to the average person, I know more about how to purchase financial services*, (iii) *I have accessed many different aspects of information on financial services* and (iv) *I completely understand financial services*. A likert scale numbered one to seven was used to collect the data, anchored strongly disagree/strongly agree, with neutral also labelled.

Some manipulation of the objective and subjective expertise measures were carried out to allow a more sophisticated analysis of the data. Whilst preliminary analysis indicated a significant positive correlation between objective and subjective expertise (*Pearson correlation coefficient .225, significance 0.000*), it is clear that levels of objective and subjective expertise may differ significantly for some respondents. Some may have high objective expertise but may rate themselves as low in terms of subjective expertise. Such individuals could be classed as “lacking expertise confidence”. At the other extreme, some may have high self-rated expertise, but may be shown to have a low level of objective expertise. Such individuals could be characterized as operating under the “illusion of expertise”. Cluster analysis<sup>5</sup> was employed to establish the prevalence of such groups in the data. Firstly, a “high” and “low” expertise cluster was established for both objective and subjective expertise using a simple k-means cluster analysis technique

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<sup>5</sup> It is acknowledged that alternative methods of splitting data are available, such as median splits or percentiles, however, in the absence of any demonstrably superior method, cluster analysis was chosen as it is a recognised statistically valid technique for partitioning data.

in SPSS. Results are shown in table two, which provides mean values for the cluster centres. Then, respondents were further classified into one of four expertise groups dependent upon their cluster membership. Those who were high in subjective and objective expertise formed the high expertise group, whilst those with a low, low combination formed the low expertise group. Those high in objective expertise, but low in subjective expertise were classified as lacking expertise confidence and those low in objective expertise but high in subjective expertise were placed in the illusion of expertise category. Details of the groups are provided in table three.

Table 2 and 3 about here

Demographic information was also collected for use in subsequent analysis. Gender was measured as a female/male dichotomous variable. Social class was also measured with categories AB, C1, C2 and DE used<sup>6</sup>. Age was measured as a categorical variable, with those aged 18-34, 35-54 and 55 and older grouped together. Annual household income was also measured, with the categories less than £10,000 (\$19,000 approximately), £10,000 to £19,999 (\$19,000-\$38,000 approximately), £20,000 to £29,000 (\$38,000 to \$57,000 approximately) and greater than £30,000 (\$57,000 approximately). Finally, ethnicity was measured according to the following criteria: White British, White Other, African/Afro-Caribbean, Indian/Pakistani/Bangladeshi, Chinese and Other. The ethnicity measures represented a compromise between drawing meaningful distinctions between

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<sup>6</sup> A= Upper Middle Class (Higher managerial, administrative or professional), B= Middle Class (Intermediate managerial, administrative or professional), C1= Lower Middle Class (Supervisory, Clerical and junior managerial, administrative or professional), C2= Skilled Working Class (Skilled manual workers), D= Working Class (Semi or unskilled manual workers), E= Lowest level of subsistence (State pensioners, welfare recipients, casual or lowest grade workers)

different ethnic groups whilst maintaining sufficient aggregation in the data to allow it to be used in further analysis.

Subsequently, the measurement scales<sup>7</sup> employed in the study were subject to both exploratory and confirmatory factor analysis. Exploratory factor analysis indicated that all items loaded significantly onto their expected construct, thus helping to confirm discriminant validity. Statistical analysis (KMO statistic .74, extraction communalities 0.49-0.72) indicated that the data was suitable for factor analysis. Confirmatory factor analysis was carried out using the LISREL statistical package (Joreskog and Sorbom, 1989) to further test the adequacy of the measurement model. Notwithstanding a statistically significant chi-square (chi-square =1070.36, degrees of freedom = 174,  $p < .05$ ) other fit indexes were generally indicative of good model fit. The Root Mean Square Error of Approximation (RMSEA) was 0.07, the Normed Fit Index (NFI) was 0.91, the Non-Normed Fit Index was 0.91 and the Comparative Fit Index (CFI) was 0.93. In addition, all loadings onto the latent constructs were significant, with  $t$  values ranging from 4.70 to 23.08. These figures provide evidence of good fit and generally confirm the validity of the measures of the constructs employed in the study. Composite, or construct reliabilities<sup>8</sup>, were also of a generally acceptable level. Reliability for the self-assessed expertise scale was 0.83, for the involvement scale 0.59 and for the preference for PI scale 0.62. All reliability measures were roughly of, or in excess of, the order of 0.60, the value deemed acceptable by Diamantopoulos and Sigauw (2000). Overall, the statistical

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<sup>7</sup> The familiarity measure, which was a simple sum of experiences and the objective expertise test, comprising yes/no responses, were not included in the validation of the measurement model.

<sup>8</sup> The composite reliability in CFA is NOT directly comparable to the more widely understood Cronbach's Alpha.

analysis of the measurement employed in the study indicates that the data are suitable for use in further analysis.

## **Analysis and Discussion**

### *Dependent Variable and Measured Dispositions: Summary Statistics*

The summary statistics for the main dependent variable, shown in table four, provide an insight into how useful the SPB was perceived to be in assisting choice in financial services.

Table 4 about here.

At 5.62, the mean of the dependent variable is indicative of a relatively high level of acceptance that SPB are useful in assisting choice in financial services. However, the statistics indicate a reasonable amount of variation in the data, with a standard deviation of 1.33 and a range of 6.0, indicative of a range of opinions. A skewness statistic of -1.07 shows a marginal amount of skewing towards the higher end of the measurement scale, providing some evidence that the sample is generally positively disposed towards SPB.

Table four also provides summary statistics for the measured consumer characteristics of familiarity, subjective knowledge, objective knowledge and involvement. In general, the figures show that the mean scores for familiarity and involvement are relatively high, but are somewhat lower for subjective and objective knowledge. In all cases, there is a

moderate level of deviation and the skewness statistics are in the main indicative of relatively equal dispersion above and below the mean.

*Regression analysis: Specification*

Subsequently, an OLS regression model was employed to further explore the relationship between the demographic factors and the measured consumer characteristics outlined above and perceived usefulness of SPB in aiding decision making. Explanatory variables were the relevant measures for familiarity and involvement, as well as the expertise categories high expertise, lacking expertise confidence, illusion of expertise and low expertise, incorporated as categorical variables. In addition, categorical demographic variables gender, social class, age, household income and ethnicity were included in the model. All categorical variables were modelled using the standard dummy variable procedure, with one category being omitted as a reference group. An analysis of the multi-collinearity statistics indicated that there were no problematic correlations between explanatory variables, with variance inflation factors ranging from 1.077 to 2.049, all comfortably below the value of 10 deemed unacceptable by Hair, et al (1998). As can be seen from Table five, the adjusted R squared for the model was 0.05. Whilst this could be construed as relatively weak, such values are by no means unusual for cross-sectional studies. It is important to note that the overall model is significant, indicating a meaningful relationship between the dependant variable and the explanatory variables in general.<sup>9</sup>

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<sup>9</sup> Investigation of appropriate plots from regression analysis output indicated that non-linearity was not a significant feature of relationships within the data.

Table five about here

*Regression Analysis: Demographics*

Dealing firstly with the demographic factors in the regression analysis, it should be noted that gender was found to be a significant explanatory variable. Whilst gender *per-se* is not necessarily associated with vulnerability, there has been a particular focus on women and personal finance in the UK (see for instance FSA, 2001), with the concern expressed that women are less likely to provide adequately for themselves, particularly in areas such as pensions. The analysis showed that females are less likely than males to perceive SPB as useful in assisting in the choice process. Females may be more sceptical of the Government's ability to ensure that SPB will enable consumers to make more informed choices and/or they may be more inclined to show trust in financial services firms to serve the customer effectively without needing the re-assurance of SPB to assist their choice process. Indeed, recent research in UK financial services (Ennew and Sekhon, 2005) has indicated that females are systematically more trusting of financial services organizations.

With respect to age, those in the middle age bracket, aged 35 to 54, perceived SPB to be significantly more useful than the reference group, those over 55 years old. Those in the young group showed no significant difference when compared to the reference group. The young and the old have been identified as potentially more vulnerable in the marketplace (OFT, 1998), hence for SPB to appeal particularly to more vulnerable segments, the opposite pattern of results is desirable.

A primary specification of the target market is that it should include those individuals on low to middle incomes. This is generally interpreted as less than £30000 at the higher end, but enough to mean that saving, at least, a small amount is feasible. Thus, the lower income limit for the target market is usually placed between £10000 and £15000 per amount. Again, the results provide little comfort for policy makers. Those earning from £20,000-£30,000 were shown to be marginally less significantly convinced of the role of SPB in assisting choice than the reference group of those earning >£30,000, with no other differences found. This is the opposite of the desired relationship. Those in the £20,000 to £30,000 income bracket are central to whether SPB can play the crucial role envisaged in assisting choice. With the SPB failing to resonate with this group, the evidence suggests that SPB will fail to generate interest from one of the core target groups.

Factors which exhibited no significant differences were also indicative of relationships which are important from a policy making perspective. Where no significant relationships were present, it is apparent SPB are not appealing in particular to segments of the marketplace deemed to be particularly worthy of help and assistance by policy makers. Thus, it is important to note that no differences were apparent with respect to social class and ethnicity. Those from higher social classes were no more or less likely than the reference group of social classes D/E to perceive a useful role for SPB. Finally, those of white ethnicity were no more or less likely than other ethnic groups to recognize the role SPB may play. More vulnerable consumers, such as, those lowest social classes and those

from ethnic groups which are burdened particularly by literacy and numeracy problems do not see greater merit in SPB.

*Regression Analysis: Familiarity, Expertise and Involvement*

The regression analysis also measured the impact of familiarity, expertise and involvement on the perceived usefulness of SPB in the choice process. The first major element of consumer knowledge subject to testing was that of familiarity, or experience with financial services. The results indicated that those with a greater level of familiarity perceive a greater usefulness for SPB in choice processes. It may well be that cumulative experiences have left such individuals with a less positive opinion of financial services providers and, therefore, a greater perceived need for the reassurance offered by the SPB. Given the recent scandals surrounding the mis-selling of pensions, endowments and payment protection insurance in the UK, this is perhaps not surprising. Those with relatively little experience may have had fewer bad experiences, leading them to be less sceptical of the abilities of financial services firms to serve them effectively.

The other element of customer knowledge is expertise and combinations of subjective and objective expertise were tested in the regression analysis. Those from the low expertise group were omitted as the reference category. Those from the high expertise group and those from the lacking expertise confidence group were found to have no significant difference in the perceptions as to the usefulness of SPB. This is in contrast to previous findings in a similar context, where McAlexander and Scammon (1988) investigated the attitudes of high and low knowledge groups towards regulation of

financial services in the form of licensing of financial planners. They found that low knowledge customers were more likely to value licensing information as a cue to evaluate the competence of advisors. Low expertise consumers in this study do not appear to recognize the potential usefulness of SPB in the decision making process. **In may be that the licensing of planners is signalled more effectively than SPB, thus making its usefulness more evident to consumers. Also, consumers may perceive a more overt link between the licensing of planners and financial competence of advisors than between the SPB and product suitability.** The final expertise group is those under the illusion of expertise who subjectively rate themselves as more expert than objective tests show. Results showed that this group was marginally significantly less likely to agree that SPB are useful in assisting choice.

#### *Consumer Characteristics: Interaction Effects*

The regression analysis reported above highlights significant relationships between the dependent variable, perceived usefulness of SPB and the range of explanatory variables incorporated into the model. Here, further analysis of the data is reported with the objective of providing a more detailed understanding of the data and the insights they provide for policy makers. In particular, the potential for interaction effects between the consumer characteristics included in the study is explored using a general linear model.<sup>10</sup> Table six reports the results of a general linear analysis with expertise group category (low expertise, illusion of expertise, lacking expertise confidence, high expertise) entered as the fixed factor and familiarity and involvement included as co-variates.

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<sup>10</sup> Interaction effects were explored separately rather than employing multiplicative terms in the regression analysis to provide an enhanced understanding of their possible impact

Table 6 about here

Firstly, for main effects, the results confirm the findings of the regression analysis, showing that familiarity and involvement are positively related to the perceived usefulness of SPB, and that a significant relationship exists between expertise group and perceived usefulness of SPB.<sup>11</sup> Secondly, the analysis showed that, whilst in the main interaction effects were not significant, the interaction between expertise group and involvement had a marginally significant influence on the perceived usefulness of SPB. Inspection of the parameter estimates indicated that the significance of this interaction was due to a strong relationship between membership of the illusion of knowledge group and involvement ( $B=2.94$ ,  $t=2.60$ ,  $sig=0.00$ ). Members of this group who are more involved in personal finance matters have a more favourable disposition towards the SPB. Thus, involvement would appear to be key in mitigating this group's over-confidence.

### **Policy Implications**

Policy makers responsible for championing SPB will be interested in general attitudes towards such products and it is acknowledged that SPB are not necessarily a failure merely because they are serving and benefiting consumers other than those originally envisaged. In this respect, the results of the study suggest that the general level of usefulness of the SPB in assisting in the choice process in financial services appears reasonably high. Positive attitudes towards the potential role of SPB are important if such

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<sup>11</sup> Inspection of the parameter estimates indicates that the significance of the expertise factor is due primarily to a large negative impact on attitudes for the illusion of knowledge group ( $B=-2.08$ ,  $t=-3.30$ ,  $sig=0.00$ ) offering further confirm of the findings of the regression analysis

changes are to help consumers overcome opacity in the marketplace, reduce instances of mis-selling and reduce the degree of under-provision on the part of consumers and potential consumers. Policy makers will be encouraged that their initiative has, generally, been accepted reasonably enthusiastically and may well be assisting consumers in their choice process.

Notwithstanding such arguments, it is important to highlight to what degree SPB are likely to resonate with the target market identified in order that policy makers are provided with an insight into how successful they are likely to be in producing greater engagement in personal finance markets amongst the main target segment. This is an important consideration, especially considering the reservations about the relatively low uptake of SPB expressed by a number of influential organizations (as discussed above) and given that previous initiatives, such as the introduction of Personal Equity Plans and Individual Savings Accounts<sup>12</sup>, are widely viewed to have helped the more wealthy and financial astute, rather than encourage those failing to save sufficiently. Thus, there is a danger that the SPB policy initiative has become another initiative which has failed to meet its objective of impacting the attitudes and behaviour of the main target market identified, i.e. low-medium income, less experienced, less expert and more vulnerable consumers,

The results of the study suggest that, to a large extent, the Government may be frustrated in its ambitions for the financial services market. SPB appear to appeal more to

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<sup>12</sup> Personal Equity Plans and their Subsequent replacements Individual Savings Accounts both offered a greater advantage to higher rate tax payers, with the result that take up amongst more wealthy individuals was particularly advantageous.

consumers who are highly involved in financial services. This is probably because those who are already interested in and appreciate the personal relevance of financial services are more inclined to perceive SPB as useful in assisting in choice of financial services. Such individuals are less likely to be confused, vulnerable and under-providing. Thus, a considerable amount of effort and expenditure is being invested in a policy initiative which will not appeal to the less involved. Policy makers would no doubt prefer that those with low levels of involvement view SPB more positively and respond accordingly, hence helping to correct problems of lack of understanding and provision amongst less involved consumers.

The evidence on the role of customer knowledge provides further support for such a line of argument. Those who are more familiar with financial services due to having greater experience also rate SPB as being of greater use in assisting choice. Policy makers are likely to be disappointed that SPB do not resonate more effectively with less experienced consumers, as such consumers are likely to be in greater need of a simplified decision making heuristic, thereby ensuring that they choose a product which is suitable for their needs.

The results for expertise provide mixed signals for policy makers. Those from the low knowledge group show no significant difference in perceptions of usefulness of SPB when compared to high knowledge and lacking confidence groups. Although policy makers would probably have preferred a more positive reception from the low knowledge group, this group are, at least, more positively disposed towards SPB than the illusion of

expertise group. This latter group is, to a degree, less inclined, to see a useful role for SPB in the choice process than other expertise groups. As this group have shown themselves to be overconfident generally, it is perhaps not surprising that they are least inclined to acknowledge the potentially positive role that SPB may play in assisting the choice process.

The findings from the demographics will also be of concern to policy makers. There is no evidence to suggest that SPB resonate particularly with low income consumers, those from the lowest social classes or from ethnic minorities who may face particular challenges in engaging with financial services. Indeed, the data suggests that those in the medium income bracket of £20-30,000 per annum are marginally convinced of the usefulness of SPB. Policy makers will be disappointed that these potentially vulnerable customer groups do not appear to value the brand significantly more than other groups and will no doubt conclude that such initiatives are likely to yield limited success as a result.

On balance, although it is acknowledged that the results are indicative of a reasonably high level of general acceptance for the SPB, the results consistently indicate that it is unlikely to yield success by appealing to more vulnerable groups of consumers and thus it will fail to alleviate some of the well documented problems in financial services consumption. Those who are more involved in and more familiar with financial services perceive SPB as of greater use in assisting choice processes in financial services. As individuals become more experienced and interested, they appear to appreciate their

vulnerability to a greater extent and thus perceive greater benefits from SPB. Alternatively, those who lack interest, involvement and experience appear to be “blissfully ignorant” and not prone to worrying about what they do not know about. To coin a phrase, such individuals “don’t know what they don’t know”. Thus, the low take up of SPB in the primary target markets is due in no small measure to demand side factors, although it is acknowledged that these factors may be exacerbated by a lack on enthusiasm on the part of suppliers.

### **Limitations and Conclusions**

The main limitation of this study is that it is restricted to the analysis of problems in financial services consumption and attendant policy prescriptions in one major European country, namely the UK. However, whilst the policy prescriptions may be specific to a particular country, problems and issues surrounding financial services consumption are more generic in nature. As a result, it is likely that policy makers in other countries will be interested in the likely success of efforts of UK policy makers aimed at assisting consumers to choose suitable and sufficient financial services. Thus, although the results of the study will be particularly important in the context of the UK, valuable insights will be provided for policy makers in financial services more generally.

In conclusion, the results of the study indicate that SPB are unlikely to meet their objective, as they does not appeal in particular to the main target segments for the policy, namely low income and vulnerable consumers in a position of consumer weakness. The analysis indicated that rather than appealing to low involvement consumers, SPB are

more likely to have resonance with high involvement consumers, as well as those consumers who are more, rather than less familiar with financial services. Thus, despite a reasonably high level of general acceptance, it is probable that the SPB approach will not assist significantly in solving the problems of mis-buying, mis-selling and a lack of adequate provision in the main target market identified. In due course the Government may have to consider more radical solutions, which could include increased state provision or some form of compulsion. The latter would involve mandatory contributions into a form of personal savings and investment fund, which could then be called upon for certain specified purposes. The Government has more recently taken a step towards compulsion, with the planned introduction of automatic enrolment pensions, where workers with no other scheme will be enrolled into a nationally available scheme unless they choose to opt out.

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**Table 1: Sample Characteristics**

Sample characteristics		
	Frequency	Percent
<b>Gender</b>		
Female	500	49.9
Male	502	50.1
<b>Social Class</b>		
AB	199	19.9
C1	307	30.6
C2	300	29.9
DE	196	19.6
<b>Age</b>		
18 to 24	100	10.0
25 to 34	200	20.0
35 to 44	201	20.1
45 to 54	170	17.0
55 to 64	131	13.1
65 and over	200	20.0
<b>Total</b>	<b>1002</b>	<b>100.0</b>

**Table 2: Knowledge and Involvement Cluster Analysis**

Cluster Analysis		
	Cluster Mean	
	Low	High
<b>Familiarity</b>	2.76	7.04
<b>Objective expertise</b>	0.70	2.53
<b>Subjective expertise</b>	2.42	4.80
<b>Involvement</b>	3.59	5.77
<p><i>Figure provided is mean score for cluster centres. N.B: Familiarity was measured on a 9 point scale, objective expertise was measured on a 4 point scale and subjective expertise and involvement were measured on a 7 point scale.</i></p>		

**Table 3: Expertise Groups**

	N	Range	Mean	Std. Deviation
<b>Low expertise group</b>				
Subjective expertise scale	236	2.50	2.3496	.80764
Objective expertise scale		1.00	.6568	.47579
<b>Illusion of expertise group</b>				
Subjective expertise scale	162	3.25	4.6296	.79068
Objective expertise scale		1.00	.7531	.43255
<b>Lacking expertise confidence</b>				
Subjective expertise scale	267	2.50	2.4738	.76904
Objective expertise scale		2.00	2.4719	.63878
<b>High expertise group</b>				
Subjective expertise scale	337	3.25	4.8761	.92222
Objective expertise scale		2.00	2.5757	.67330
<i>N.B Objective expertise was measured on a 4 point scale and subjective expertise was measured on a 7 point scale.</i>				

**Table 4: Stakeholder Product Brands and Consumer Characteristics:**

**Descriptive Statistics**

	N	Range	Mean	Std. Deviation	Skewness
	Statistic	Statistic	Statistic	Statistic	Statistic
Usefulness of Stakeholder Brand	1002	6.00	5.62	1.33	-1.07
Familiarity	1002	9.00	5.86	2.30	-.54
Subjective Expertise	1002	6.00	3.60	1.46	.17
Objective Expertise	1002	4.00	1.80	1.07	.09
Involvement	1002	6.00	5.14	1.26	-.90

**Table 5: Regression Results**

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	-.227	.351		-.674	.518
	Familiarity	.105	.032	.120	3.302	.001

<i>Illusion of Expertise</i>	<i>-.359</i>	<i>.203</i>	<i>-.066</i>	<i>-1.769</i>	<i>.077</i>
Lacking expertise confidence	-.169	.181	-.037	-.927	.354
High expertise	-.124	.176	.029	.702	.483
<b>Involvement</b>	<b>.138</b>	<b>.052</b>	<b>.086</b>	<b>2.632</b>	<b>.009</b>
<b>Gender</b>	<b>.321</b>	<b>.129</b>	<b>.080</b>	<b>2.483</b>	<b>.013</b>
Social Class AB	.115	.220	.023	.525	.600
Social Class C1	.256	.195	.059	1.314	.189
Social Class C2	.175	.193	.040	.906	.365
Age 18 to 34	.232	.169	.053	1.376	.169
<b>Age 35 to 54</b>	<b>.378</b>	<b>.157</b>	<b>.091</b>	<b>2.404</b>	<b>.016</b>
Household income <£10K	-.190	.240	-.028	-.794	.427
Household income £10K-£20K	-.140	.177	-.027	-.791	.429
<b>Household income £20K-£30K</b>	<b>-.339</b>	<b>.175</b>	<b>-.063</b>	<b>-1.935</b>	<b>.053</b>
Ethnicity: African/Afro-Caribbean	4.328E-02	.453	.003	.096	.924
Ethnicity: Indian, Pakistani, Bangladeshi	-.121	.413	-.009	-.292	.770
Ethnicity: White other	.208	.223	.029	.929	.353
Ethnicity: Chinese and other	-.291	.332	-.028	-.877	.381

*Adjusted R Squared = 0.05; Model Significance F = 3.54, Significance = 0.00*

*Explanatory variables which are significant at 5% level are shown in bold.*

*Explanatory variables which are significant at 10% level are shown in bold italic*

**Table 6: Interaction Effects**

<b>Tests of Between-Subjects Effects</b>					
	Type III Sum of Squares	df	Mean Square	F	Sig.
Corrected Model	83.229	11	7.566	4.426	.000
Intercept	868.238	1	868.238	507.852	.000
<b>Expertise</b>	<b>18.892</b>	<b>3</b>	<b>6.297</b>	<b>3.684</b>	<b>.012</b>
<b>Familiarity</b>	<b>11.378</b>	<b>1</b>	<b>11.378</b>	<b>6.655</b>	<b>.010</b>
<b>Involvement</b>	<b>39.669</b>	<b>1</b>	<b>39.669</b>	<b>23.203</b>	<b>.000</b>
Expertise/Familiarity	2.772	3	.924	.541	.655
<b>Expertise/Involvement</b>	<b>12.135</b>	<b>3</b>	<b>4.045</b>	<b>2.366</b>	<b>.070</b>
<i>Involvement/Familiarity</i>	<i>1.072</i>	<i>1</i>	<i>1.072</i>	<i>.627</i>	<i>.429</i>
Error	1691.458	989	1.710		
Total	33426.250	1002			
Corrected Total	1775.759	1001			

*Explanatory variables which are significant at 5% level are shown in bold.*

*Explanatory variables which are significant at 10% level are shown in bold italic*