

## Our products

**Product evolution is at the core of our NS&I adding value strategy, as we seek to simplify and modernise our product range in line with customer needs. Though this year saw only one new product launch, other aspects of the product strategy accelerated. Customer Offer Director Peter Cornish, Change and Strategy Support Director Julian Hynd, and Customer Sales and Retention Director John Prout discuss the progress.**

### Firstly, how do you decide what products you offer?

**Peter:** Our product range is designed to offer a range of options that meet customers' different savings needs. Some want regular returns, some want fixed term savings, some want easy access and so forth.

### So what changes have you made to the range this year?

**Peter:** The most significant was the launch of Direct Saver in March 2010. It's exactly what it says it is: an easy access savings account that can be managed online and by telephone. It's still quite new but customer demand has been very strong.

**John:** We also changed the way we sell our Guaranteed Growth Bonds and Guaranteed Income Bonds. We mutually agreed with the Post Office® that, from October 2009, we would make them available only from NS&I. This partly reflected the development of the Post Office's® own brand of savings products – which included some that were very similar to some NS&I products. In line with our commitment to treat customers fairly, we wanted to ensure that we minimised potential customer confusion.

**Julian:** Together these changes mean that for the first time we can now offer customers a range of products covering three of the major savings product classes solely through our call centres and website: an ISA, a savings account and fixed rate bonds. Strategically, that's a big step and it reflects the fact that we've got an internet platform we can depend on.

### Why do you need to simplify and modernise your product range?

**John:** Above all to reflect customer needs. We do a lot of research and analysis to understand how customers want to save, both in terms of what type of accounts they want and how they want to manage them – which more and more involves direct access. That means in some cases developing new products, such as Direct Saver, but also closing older ones.

**Julian:** We closed a couple of products in the first year of our strategy, but simplification also involves looking at the products that are still relevant and improving them. Many of these have been established for a long time and could be managed more efficiently. A good example is Income Bonds, where the monthly income has historically been based on paying a dividend. This effectively means that the systems formally 'shut' for a period each month to allow the dividend to be calculated. Though this doesn't affect customer transactions or returns in any way, it is an unnecessary complexity when the product could be managed as a monthly income account instead. Moving Income Bonds onto the new infrastructure in the future will change this.

**Peter:** The other aspect of simplification is that we want to make sure that customers understand our products and so can pick the ones that are right for them. In all our product brochures – as well as online and in call centre scripts – we include some standard information on who the product might suit. This typically covers the sort of returns available and whether customers will have instant access to their money, or if it is invested for a fixed term. It's an important part of our customer offer.

### Perhaps the biggest product story of the year was the new Issues of Guaranteed Growth Bonds and Guaranteed Income Bonds. Was the response what you expected?

**John:** Largely, yes – although the speed of take-up was ahead of our expectations. We knew we were offering an attractive rate, and we were clear about the financial targets we wanted to reach. As soon as we achieved those targets, we took the products off sale. I was very pleased with the response we received and the controlled and responsible way

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we managed it. For me, this is a clear indication of the sort of thing NS&I could potentially do more of – that is, opening products for a fixed time-span to meet specific funding targets.

**There was criticism from some quarters that the Bonds were priced too competitively. How do you price products and was anything different in this instance?**

**John:** In a normal savings environment, we set interest rates using two key benchmarks: the Bank of England base rate for our variable rate products and the yield on gilts for our fixed rate products. However, we are not in a normal savings environment: the base rate has been at a historically low level for over a year. So, as we explained in last year's Annual Report, we now set rates to balance the interests of three groups: our customers – offering them a fair rate; taxpayers – with our remit to raise cost-effective finance for government; and supporting stability in the wider financial services marketplace by maintaining an appropriate competitive position. The pricing and management of the Guaranteed Growth Bonds and Guaranteed Income Bonds Issues were in line with this approach.

**So where next for your products? Will there be major changes in 2010–11?**

**Julian:** I think the big change will be in the way customers manage their savings and investments with us. As we transfer products onto our new infrastructure, we're able to give customers a full online capability – checking account balances, seeing previous transactions, making further deposits or withdrawals.

**Peter:** But even as we move products, and simplify our own processes, we'll continue to make sure that customers know what we're doing and how it might affect them. Remember, around a third of people in the UK own Premium Bonds: it's neither in our interests, nor theirs, to rush people into change. We want to make sure investors understand the products they pick, know how they're evolving and how they can manage them. That's a principle at the heart of our product range and strategy, and our customer service.

## Funds invested by product type

	Invested at 31 March 2010 £ million	Invested at 31 March 2009 £ million
Premium Bonds	41,572	40,793
Fixed rate bonds	17,508	12,985
Variable rate products	37,759	40,558
Products no longer on sale	1,965	2,895
<b>Total</b>	<b>98,804</b>	<b>97,231</b>

## Products on offer to new investors

### Children's Bonus Bonds

Tax-free investment for your children's future

### Direct ISA

Tax-free savings online and by phone

### Direct Saver

Everyday savings online and by phone

### Easy Access Savings Account

A savings account with tiered interest rates, cash card and telephone service

### Fixed Interest Savings Certificates

Guaranteed returns, tax-free

### Guaranteed Equity Bonds\*

Growth potential linked to the FTSE 100 index, with no risk to your capital

### Guaranteed Growth Bonds\*

Fixed rate bonds with a choice of terms

### Guaranteed Income Bonds\*

Fixed rate bonds that give monthly income

### Income Bonds

Regular monthly income at variable rates

### Inflation-Beating Savings

(also known as Index-linked Savings Certificates)

Tax-free returns guaranteed to beat inflation, as measured by the Retail Prices Index, when held for at least a year

### Investment Account

Passbook savings with easy access to your money

### Premium Bonds

Monthly prize draw with a tax-free £1 million jackpot

\*Not currently on sale as at 31 March 2010.