Financial Services Consumer Panel
AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

Telephone: 020 7066 9346
Email: enquiries@fs-cp.org.uk

Intergenerational Project
Strategy and Competition Division
Financial Conduct Authority
12 Endeavour Square
London
E20 1JN

6 August 2019

Dear Sir / Madam,

**Intergenerational Differences**

This is the Financial Services Consumer Panel's response to the Intergenerational Differences Discussion Paper (DP).

We agree that the needs of consumers are changing and, over time, this may require regulation to change or adapt, in order to ensure financial products and services continue to meet those needs. Many of the intergenerational differences also overlap into social policy issues, and some of the responses will require other policy makers to adapt, and for all relevant stakeholders to work together rather than in isolation.

We believe the FCA has created a broadly useful framework for thinking about the long-term trends in consumer needs. It is impossible to guess market responses to each trend, or to spot every risk in advance. Therefore, it is crucial to get the long-term framework right, and then to integrate long-range questions into its risk framework, as it seems to be starting to do with environmental risks.

When the FCA is considering certain trends, issues or remedies, it should always attempt to quantify any consumer detriment, the market size and the product margins, so that the size of the issue can be identified.

Any proposed solutions, including whether they be new regulatory principles, or just guiding principles, to underpin the FCA approach, should ensure a focus on social cohesion, fairness, long-term certainty and sustainability, and vulnerability.

The following are key considerations:

- Policy makers and regulators need to ensure the overarching structure of consumer rights are adapted for a digital and data-driven world. While much of this will be for government to consider, the FCA should advise and then apply it robustly within financial services;
- There should be a supporting structure of equalities and similar protections to ensure no age group becomes disenfranchised or disadvantaged, and access and vulnerability issues are considered;
- There should be rigorous and future-proof standards for product and conduct in financial services. A requirement for firms to owe a duty of care to their customers is an essential pillar of this

The FCA will best add value if it examines intergenerational product innovation through:

a) the underlying economic need;
b) whether the risk, price and value proposition looks sustainable and fair to firms and consumers;
c) whether public policy needs to adapt, before the financial services sector can meet the required conditions; and
d) if it has a clear view of what good looks like in each market, and knows how it will measure outcomes for consumers.

In other words, the business model should make sense and there should be reasonable long-term value for consumers and firms. Without these, there is a risk of poor consumer outcomes. The FCA should continue with its Financial Lives consumer research to ensure it is able to identify changes in buying patterns, products required and sources of advice and guidance.

The three generations of financial services users identified in the discussion paper, are not homogeneous groups, and care should therefore be taken to ensure the issues, as well as potential solutions, do not treat them as such. Within each group there will be significant differences in wealth terms.

Furthermore, the world did not begin with baby boomers and the generation prior to the baby boomers, sometimes known as the silent generation, born between 1926 and 1945, will still have an interest in the issues of later generations for some years to come. In 2030 there will be significant numbers of this generation still alive and they therefore should not be disregarded in this debate. They may, for example, be particularly impacted by long term care issues.

The DP considers consumers in terms of consumption, and wealth is seen as an implicit proxy for quality of life. From an intergenerational point of view, how that is distributed is key and increases in personal wealth from one generation to the next has been seen as the norm. The fact that this may not continue is seen as a challenge.

However, the impact of the climate emergency is refocussing debates on consumption which may be a significant challenge to the normal terms of this debate. Individual wealth and consumption at the expense of the planet may cause a reframing of what succeeding generations want.

Changes in employment such as zero hours contracts have introduced income volatility, as have greater job mobility and portfolio careers and these changes are not unique to just one generation. Changes to the labour market structure are not in the control of individuals. Only where the skills are in big demand and supply is limited do individuals shape the market. Increasingly as skills are outdated more quickly and job mobility rises the employer will probably have more power and this impact of creating uncertainty is likely to affect consumption behaviour.

For the consumer, one overriding need that the DP illustrates is the requirement for efficient guidance through MAPS, good regulated financial advice, a regulatory focus on value for money, and automatic enrolment or default pathways where appropriate. For all age cohorts, in a complex world, with inherent uncertainty, the consumer protection needs can be assisted by the above.

There can be no 'one-size fits-all' solution to any of the issues raised. We urge the FCA to take into account the devolved administrations where different rules may exist and to guard against any policy proposals from being too London-centric. There may also be regional and social differences, so policy makers should recognise that there are *intra* generational differences as well as intergenerational.

The FCA may wish to consider whether cross-regulatory action with utility regulators may be beneficial on key issues such as a priority services registers, and to ensure consistency across all sectors with social policy issues.

**Questions**

**Q1: Are there other factors driving changes in the consumer needs of different generations (in addition to those we have listed in Chapter 3 of this paper) that we should consider? What are these?**

In addition to the five drivers of change there is the question of population mobility within the UK but more importantly migration to and from the UK and the patterns of migration. Age profiles of inward and outward migration might not be the same but we would anticipate that inward migration is of working age population, possibly with dependants, while outward migration might include larger numbers of near-retired or retired British citizens, without dependants. Patterns of migration will raise issues for effective servicing by financial services' firms and the type of products required.

Brexit raises the question of what future population movement changes might be, including returnees from EU countries, and in addition climate change/famine raises the spectre of mass migration from uninhabitable parts of the planet. Population movement is a factor to consider as a driver of change in that it alters the call on some public services and can alter the age dependency ratio.

There may be gaps in the pre-existing structure of basic rights through social policy afforded to low and variable income workers, and renters, for example. Regulators should consider whether financial services solutions are more likely to help with those risks, or exacerbate them. Where financial services solutions are unlikely to help manage those risks, then public policy may need to step in to strengthen basic rights, in ways other than through financial subsidies.

A second supplementary issue relates to the health of the nation. The increase in diabetes 2, increasing prevalence of dementia, and more people living with chronic conditions puts pressure on the NHS and also how long people can remain in the labour market. There are challenges for welfare funding but also protection insurance.

Any policy proposals and innovations must account for future differences where possible, as well as those we are already able to identify today. Regulators may need to regularly update their analysis of how financial services impacts the lifecycle consumption model and to take into account unforeseen changes in regulation. For example, different cohorts are quite sensitive to their relative tax position. A radical shift from taxing income to taxing assets, especially on inheritance, would re-write the wealth picture, and change how and when money moves between generations. People at the peak of their earnings, may begin to share income with younger cohorts to pay off student debts, for example, rather than sharing assets with them later in life or on death. There is an ongoing risk that, should there be changes in tax policy, good consumer decisions and advice recommendations made today may no longer be relevant and may in fact create harm.

**Q2: Are there other ways in which the factors we have identified as driving changes influence how individuals from across different age groups build up and access wealth?**

Apart from student funding it is arguable that the vast amount of people do not control or plan for the drivers of change, but instead react to those drivers. Repayment of student loans can obviously impact on savings made but also the capacity to purchase housing or invest in other longer-term assets.

Lack of awareness of pensions and life expectancy means that most people are not planners for retirement but a mixture of the state pension and company defined benefit schemes have meant until quite recently baby boomers have not been subject to the sort of planning post boomers are required to make. The newer freedoms in decumulation have been a shock to the system and may result in changes to inheritance patterns.

Interest rates are not set by individuals, and estimates of rate fluctuations are not part of general discourse. While rates may drive short term behaviour it is likely that consumers are not planning with any evidence or awareness of where rates may go. We know that the impact on both borrowing and saving can produce harm as consumers seek higher-return assets to invest in without an adequate understanding of the consequences of risk, or access more low-interest credit which in a changed interest rate climate could be unsupportable.

For baby boomers, house purchase in the 1960's was likely to have been driven by social status, personal autonomy and control, and certainty, rather than simply as an asset appreciation which has become more focussed in the 1980's onwards, particularly in the South East. The house price boom has delivered massive growth in unearned wealth which has become well understood by the public at large. This, despite periods where mortgage interest rates were very high. Effective pricing-out of ownership will impact on personal asset accumulation for post-boomer generations but individuals have little control over housing supply or mortgage rules and interest rates. Access to deposits for a property have increasingly become a question of access to early inheritance.

The implications of the above are reflected in wealth transfers within families. Parents' and grandparents' wealth has most often been passed from one generation to the next through

inheritance, subject to state taxation. However, inheritance patterns are changing with early transfers. Most obviously with the deposit for a house, or support on mortgage repayments, coming to a purchaser from their relatives. This transfer enshrines wealth and limits social mobility but also frees up purchasing powers to people who would not have been able to purchase. This keeps prices higher as demand is artificially enhanced and negatively impacts upon those without access to inheritance. This will also, as assets are depleted by older generations, have a potential impact on long term care funding as there is reduced wealth to be 'taxed' to pay for it.

Changes to the labour market structure are not in the control of individuals. Only where the skills are in big demand and supply is limited do individuals shape the market. Increasingly as skills are outdated more quickly and job mobility rises the employer will have more power.

**Q3: To what extent are financial services providers currently meeting the changing needs across different age groups? How could innovation in product design help meet changing consumer needs of different age groups?**

The discussion paper discusses in Chapter 4 the market response in terms of housing but a general lack of certainty may be the biggest inhibitor to innovation across all product areas. Public policy impinges significantly on many of the issues; housing, long term care, health and education funding policies, employment trends, Government pension policy, general taxation and inheritance taxation. Market solutions will be inhibited until there is a greater level of certainty about public policy decisions.

In that context providers respond to new innovation such as that driven by technology and align their services to the way consumers can access and use services but in this there remains the worry of digital exclusion either from a service or the best service on offer. If the pace of change increases even further will every cohort become excluded at some point if access requires consumers to continually acquire new skills.

We support greater innovation in insurance, saving and credit products in order to provide solutions for consumers to manage their own risks. Product developers should explore whether privately available products are able to fill gaps in social provision, and if gaps remain, should be clear as to whether the problems lie in product design, or in the scale required to meet demand.

However, technology and innovation are not sufficient on their own, to create businesses that meet consumer needs. Regulators will need to 'follow the money' and understand how firms' business models impact on their pricing strategies. There needs to be sufficient and realisable demand for products which can be serviced in a commercially viable way quickly enough to please investors.

**Q4: Are there any barriers (including FCA regulatory barriers or barriers to competition) that are adversely affecting access to, and use of, financial products that would meet new and changing consumer needs? Are these affecting particular age groups? If so, in what way? How should we address these while ensuring consumers still receive an appropriate degree of protection?**

The FCA should confront the fact that a lot of the issues identified, were caused by the financial crisis, and from poor conduct, which sit squarely within its remit. Whilst the FCA may not be able to influence social issues, it can require firms to do more to identify the needs of consumers. Product development should incorporate these findings and incorporate them fully into their governance processes as existing FCA guidelines say they should.

The implications of tightening credit following the Mortgage Market Review (MMR) and access to financial advice following the Retail Distribution Review (RDR) are sometimes cited as inhibiting access to mortgages and financial advice respectively. These are however responses to poor behaviour by firms and aim to increase consumer protection.

Equity release is often seen as a way to release cash for house owners who are cash poor but asset rich. The brand was tarnished by early consumer experience but notwithstanding that the market has a lack of participants. Solvency and capital adequacy appear to inhibit competition and an investigation of ways to free up capital would be a welcome initiative from the FCA.

We have always supported the two main elements of the RDR which were to ban commission and raise the level of professional qualifications required by advisors to practice. We have also often questioned why the RDR does not apply to the mortgage market, and the equity release market in particular, which would require an increase in the professional qualification of mortgage advisers. This additional qualification would not be onerous. However, it would require advisers to explore the needs of consumers in the whole, and to consider the effect a release of equity would have on benefits and tax.

We believe the FCA should also call out where tax and other government rules create risks in the financial markets. The systemic issues emerging from the increase in consumer access to open-ended illiquid funds is an example where government action for savers is driving poor products.

The FCA can also make changes to regulations that improve the consumer financial services journey.

**Q5: Is there anything more that we could do to encourage and enable positive innovation in these sectors, or to enhance competition in the interests of consumers?**

With specific regard to income protection there are questions of the interaction of payments to consumers arising from the policies they hold with means tested state benefits, reducing benefits, and thus the value of the insurance. Further, how these products are effectively distributed is a question. The Government might review how claims paid impact upon any state benefits thus removing a barrier.

**Q6: Is there any market or firm behaviour that causes or may cause potential harm to consumers? For example, is industry failing to recognise varying needs of consumers from different age groups and as a consequence, of this: a) offering products which may be unsuitable to certain age groups b) excluding, discriminating against, or failing to advance equal opportunity between certain age groups for no legitimate and objectively justifiable commercial reason (or where the reason is potentially legitimate but the approach is not proportionate) c) otherwise treating certain age groups unfairly?**

The Panel supports proposals for a duty of care to be owed by financial services providers to their customers. A duty of care could help to ensure firms develop products and services their customers want and need, at a price they can afford, and which are appropriate at different life stages.

Younger people are more likely to be online but have lower financial capability and less confidence in their ability to make financial decisions.[1] Firms could do more to help young people with basic money management. Services that aggregate types of spending, provide alerts etc are beginning to materialise but they provide only limited budgeting help. Moreover, they are not widespread and it is yet to be seen whether they will be commercially viable in the long term.

Older people are less likely to be digitally included[2], although that is changing rapidly, and they prefer accessing services face to face. This means they can struggle in a world where online services are becoming the norm, and banks are withdrawing their high street presence. Older people are likely to find themselves victims of age discrimination.[3]

This is not permitted in most service industries, but financial services are exempt. Firms can use age as a risk factor in pricing financial products, or even refuse to provide products to certain age groups. At the other end of the spectrum, young drivers may be unable to get affordable car insurance, for example, which seems unfair if their individual risk profile is much lower than the average for their group.

[1] https://www.lloydsbank.com/assets/media/pdfs/banking_with_us/whats-happening/LB-Consumer-Digital-Index-2018-Report.pdf page 43
[2] An Age UK Digital Inclusion Policy Review document states only 29% of adults aged 75 years and over have used the internet: http://www.ageuk.org.uk/PageFiles/12810/Digital%20Inclusion%20Review.pdf?dtrk=true
[3] https://www.fs-cp.org.uk/sites/default/files/fscp_laterlife0609.pdf

Paying for insurance monthly is often costlier than paying for it annually. This may indicate that those who cannot afford to pay the annual cost of a policy upfront, and may be vulnerable, are being penalised by paying more for the same policy each month.

It should also be borne in mind that technology imposes significant costs on consumers. In particular, apps will often only work with the latest hardware, so consumers may have to upgrade their phone or tablet every 2-3 years. This will be unaffordable for many.

The Panel's recent research into automatic upgrades[4] looked at how consumers can pay a loyalty penalty for staying with existing products from their financial services providers. Consumers with large amounts of mortgage or credit card debt are the most likely to pay the highest loyalty penalty. Using the three groups set out in the DP, this is most likely to affect consumers in the 'Generation x' category.

**Q7: Are there areas related to intergenerational issues which fall more appropriately to Government or another public body, but in which, in accordance with our objective**

It is impossible to horizon scan and seek regulatory improvements to both assist firms and consumers without offering an opinion on the implications of change in public policy. This can be risky territory and generally out of scope of the FCA but the FCA is uniquely placed to offer, from financial lives insight work, product policy work, and through supervision, the likely result of market solutions developing from public policy changes.

There are market solutions to presenting problems but these require as a precursor public policy leadership, and any regulatory actions must follow such policy. By way of illustration long term care in the UK is a good example. It is clear that a lack of political consensus is inhibiting both State and Market solutions. The FCA cannot easily play a part in the solutions to a clear problem of long term access to care and funding without prior Government decisions.

Reductions in State funding to local authorities has resulted in less care being available as reported by Age UK.[5] Allied to increasing numbers of older citizens living longer, the future will demand greater total expenditure on social care. There are options of purely State solutions, individual contribution solutions, and a combination of the two. The difficulty of forging a solution with consensus illustrates why no market solution can occur without a higher public policy certainty. Firms will simply not invest in developing a product without any clarity of what the State role will be.

Cross party agreement on auto-enrolment into pensions gave the market confidence about product design, and marketing and has been a success. Long-term care insurance has not been a popular product for a variety of behavioural reasons and is difficult for the market to deliver. It may not be the solution to the long-term care issue but the FCA cannot examine in detail the competition and consumer protection issues related to it if it is not to be a part of the care solution. Public policy decisions must come first as they did with pensions.

There are many public policy issues which impact on the labour market such as childcare benefits, long term funding of retraining. Similarly access to subsidised mortgages, controls on private sector rents, and housing supply and land values impact upon the housing market. Cross-subsidisation or pure risk pricing including genetic data affects the protection market. These simply illustrate how the market can efficiently meet needs but only with public policy direction clear.

With regard to housing, a radical reform of the private sector rental market through a change in tenancy rights and rent controls would change both the ability of a consumer to plan and save more effectively but would also make that form of tenure more appealing. This with changes in land use and public subsidy to house building would increase the supply of houses to buy, impacting on prices and access to home ownership. These public policy decisions change the way that consumers might access capital for ownership. These are however matters of political debate which the FCA may feel is out of scope.

Finally, the FCA mustn't assume that transfer of a given risk to individuals is right, or that marketisation, even assisted by technology, will deliver good outcomes. There are examples

[4] https://fs-cp.org.uk/sites/default/files/automatic_upgrades_position_paper.pdf
[5] https://www.ageuk.org.uk/globalassets/age-uk/documents/reports-and-publications/reports-and-briefings/care--support/care-deserts---age-uk-report.pdf

where this approach has backfired, for example with LTC where there is no functioning market; or Flood Re & affordable credit where public policy stepped in because the market outcomes were undesirable. Sometimes public policy needs to take a position first, either avoiding or filling the risk vacuum. FCA can act pre-emptively, even if that means privately, to identify where public policy action is likely to be required to enable a successful market.

Yours faithfully

Wanda Goldwag
Chair, Financial Services Consumer Panel