The Money Charity Response – FCA DP19/2 Intergenerational Differences (August 2019)

The Money Charity is a financial capability charity whose vision is to empower people across the UK to build the skills, knowledge, attitudes and behaviours to make the most of their money throughout their lives.[1]

We welcome the opportunity to respond to the Financial Conduct Authority's Discussion Paper on Intergenerational Differences (DP19/2), which we see as continuing a necessary discussion on generationally appropriate financial regulation, including the place of safe product navigation, information, advice and guidance, which are close to our financial capability mission.

We look forward to working with the FCA to help with the design of products and processes that improve the UK population's financial capability.

In this response, we set out our Key Points then answer the questions posed in the Discussion Paper.

[1] See box on back page.

Key Points

Life cycle model (Q1)

The FCA should be cautious in its application of the life cycle model, remembering that it is a model or hypothesis rather than an empirically verified description of most people's behaviour.[2] It is truer for high income people than for low income people, because high income people have more discretionary income to allocate to capital accumulation. A large proportion of the UK population do not show savings behaviour that matches the model. Indeed, a significant proportion of the population have zero or very low savings well into middle age and are struggling with debt.

Generational descriptions (Q1)

The generational categories[3] used by the FCA are in line with generally accepted practice. However we question the accuracy of the age range specified for Millennials. In our view, people born in the early to mid-1980s have more in common with Generation-Xers, while people coming of age post-credit crunch (born after 1992-3) have different digital, economic and financial experiences from earlier Millennials. We think the financial lives of different groups of Millennials (as officially defined) need a more disaggregated approach. Also, the FCA should not forget the pensioner generation(s) born before the Baby Boomers, who also have financial regulation needs.

Differences of gender and sexuality (Q1)

In its inter-generational analysis, the FCA should develop a gender perspective reflecting gendered household financial arrangements, women's different experience of the life cycle and the disruption to lifetime capital accumulation caused by taking time off paid work to look after children, and potential remedies for these structural disadvantages. The FCA should also look at the different generational experiences of LGBT+ people, who may be more likely to live in relationships and households following a life course differing from the traditional.

Wealth and needs gaps within generations (Qs 1 and 2)

Empirically the differences in wealth and income within generations are larger than those between generations. Each generation has a proportion of people living below the poverty line and a proportion of people that are rich. These groups have different needs for the FCA to respond to. For example, low income groups may be more interested in a

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[2] See for example, Angus Deaton 2005, *Franco Modigliani and the Life Cycle Theory of Consumption*, Address to Accademia Nazionale dei Lincei, Rome, February 17-18 2005.
[3] Baby Boomer, Generation X, Millennial.

ban on the ‘loyalty penalty’ in pricing, while high income groups might prefer to focus on the regulation of managed funds.

Products vs ecosystem - the safe navigation of consumer financial markets (Q3)

The innovation required to address distinct generational needs is less about products and more about the overall ecosystem of consumer financial markets. For many people there is a bewildering amount of choice and it is hard to separate good products from bad products and scams. The tentacles of criminality are ever-present and frustrate the delivery of lawful products and services. Many products have complex design and impenetrable and/or misleading terms and conditions. One of the best interventions the FCA could make would be to radically simplify and clarify the environment for most consumers and, with the assistance of law enforcement, to clean out as many of the scammers and fraudsters as possible.

Financial capability and the advice gap (Q3)

It is widely recognised, including at the FCA Intergenerational Differences Conference on 2 July 2019, that there is a big ‘advice gap’. Only a small proportion of the population has the wealth to justify paying for professional financial advice. However, everyone would benefit from financial advice and accompanying financial capability support and should be able to access it. As a financial capability charity, this is our daily experience. The FCA, working with HMT, HMRC and MAPS, needs to develop a joined-up environment for financial capability, including re-clarifying the advice/guidance boundary so that charities such as The Money Charity can give appropriate advice to people who cannot afford to pay for it and everyone is able to access the advice they need.

‘Anchoring’ in choice architecture (Q4)

Each financial product comes with a built-in choice architecture. When firms are left to their own devices, they design choice architectures that boost their revenues and profits, even where this is to the detriment of consumers. ‘Anchoring’ is an aspect of choice architecture that has a strong influence on consumer behaviour. Three currently influential anchors are:

- The credit card minimum repayment (set by FCA rules and firms in the market).
- The default pension savings rate under auto-enrolment (set by Government).
- The ‘loyalty penalty’ whereby consumers who take no positive action are automatically moved to a higher price or lower savings rate at the end of the term of their current contract (set by firms in the market).

The economic and generational effects of these are the following:

Anchor	Economic effect	Generation(s) most affected
Credit card minimum repayment (fees and charges plus 1% of principal)	High users of credit cards fall into long-term debt at short-term rates of interest	Generation X and older Millennials who are cash-strapped and in debt
Default pension savings rate under auto-enrolment (currently 8% including employer contribution).	Pension accumulation is too low for an adequate pension in retirement	Generation X, Millennials and Generation Z.
The loyalty penalty	Passive consumers pay more or receive less than active consumers. Firms receive an economic rent from passive consumers.	Can affect all age groups, but Baby Boomers and pensioners probably most affected.

These anchors, choice architectures and accompanying regulations need to be changed to make it more automatic for people to make better financial decisions.

Enhancing innovation and competition (Q5)

The key reforms/innovations we would like to see are listed on pages 14-15.

Duty of Care, retirement saving and Pensions Dashboards (Q6)

Good financial regulation should be supported by an explicit Duty of Care placed on financial service firms. Such a duty should be to 'avoid reasonably foreseeable harm to the consumer' and to 'act in the best interests of the consumer'. A Duty of Care has general relevance in consumer financial services, but is particularly relevant at the present time for pension investments, including consumers exercising pension freedoms (many of whom are Baby Boomers). There are issues around:

- Information given to consumers about their pension freedom choices, including the tax and other implications of those choices.
- DC and DB pension transfers.
- Costs and charges of pension funds.
- Marketing of pension investments.

The forthcoming Pensions Dashboards carry a mis-selling risk, as potential Dashboard providers are looking to Dashboards as a means of marketing pension consolidation. We do not know what standards of disclosure and product safety will apply.

Involvement of other agencies of government (Q7)

Our proposals are listed on page 17.

Answers to consultation 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?

The life cycle model

The FCA analysis relies heavily on the life cycle model (LCM) but it should be remembered that the life cycle model is a stylised picture of financial behaviour rather than an accurate empirical description of most people's financial lives. In the literature it is often called a 'hypothesis', including by the originator of the model, Franco Modigliani.[4] If policy is based on the assumption that the model is literally true, or true for most people, this is likely to lead to mistakes.

What the LCM leaves out is the polarised distribution of assets and income in a society like the UK's. Most people on low or middle incomes save little during their working lives, while the majority of society's financial savings are made by the top 20% of income earners.[5] Housing equity is the principal form of saving for many middle income people, but the amount of this is strongly influenced by location, house price appreciation and the age at which a person steps onto the housing ladder. Some people have pension savings, but the amount of these is highly polarised between the many who have 'pots' that are too small and the minority who have an adequate Defined Benefit pension or a large Defined Contribution pension pot. Many people in retirement find themselves in a situation of being 'asset rich but income poor', owning their house but being unable to properly maintain it.

Much of the lifetime income smoothing of low and middle income earners is carried out by the state, via taxation, National Insurance, NHS spending (which generally peaks in later life), housing benefits and the State Pension.

Most economists approach the LCM in an even-handed way, debating the empirical evidence for and against it, but behavioural economists tend to be particularly

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[4] Angus Deaton 2005, *Franco Modigliani and the Life Cycle Theory of Consumption*, Address to Accademia Nazionale dei Lincei, Rome, February 17-18 2005.

[5] ONS, *Distribution of Formal Financial Assets by Household Net Equivalised Income Decile*, Great Britain, July 2014 to June 2016.

dismissive. Given their empirical findings on present bias and other human cognitive failings, they find it implausible that the majority of human beings could behave as the LCM predicts they should.[6]

One of the biases identified by the behavioural school is 'availability bias'. This is the tendency for us to generalise from the examples available to us, even when these are not statistically representative. Most policy analysts, regulators and journalists are in higher income groups and many come from wealthy families that may approximate the LCM in their personal financial lives. It would be a mistake to generalise from these personal experiences to society as a whole.

For example, it is well known that in the UK around 1.6 million people of retirement age are in living in poverty. Most of these people were on low incomes during their working lives and were not able to accumulate assets in line with the LCM. The Age UK report *How we can end pensioner poverty* (2016)[7] gives a graphic account of what this looks like and what steps need to be taken to change the situation.

Given the failure of most people to live according to the LCM, how is it that the LCM has been able to pass any empirical tests at all?[8] The answer lies in the distinction between aggregates and individuals. Where the distribution of income and wealth is unequal, a macroeconomic effect can be created by the actions of a minority of the population. The latest income tax statistics released by ONS show that in the UK the top 10% of income earners receive one third of all income, while the top 25% receive 53% of all income.[9] At the other end of the scale, the bottom 25% of income earners receive only 10% of income and the bottom 10% only 4.4%. Income tax makes surprisingly little difference to this distribution. *After tax*, the top 25% still receive nearly half of income. The majority of *discretionary* income, therefore, belongs to the top 25% of income earners, and it is this group's behaviour that is likely to drive aggregate observations about the LCM.

Inequality in asset ownership is even greater than for income, especially for financial assets. According to a recent report from the Institute for Public Policy Research, the top 10% of asset owners own 44% of the UK's wealth.[10] This concentration arises from

[6] See, for example, Richard Thaler 2015, *Misbehaving*, page 97, where he describes his attempt to present the LCM to an audience of psychologists at Cornell University.
[7] https://www.ageuk.org.uk/Documents/EN-GB/Campaigns/end-pensioner-poverty/how_we_can_end_pensioner_poverty_campaign_report.pdf?epslanguage=en-GB?dtrk=true
[8] For example, Deaton (2005) describes how the LCM is consistent with the observed relationship between growth rates and national savings rates.
[9] UK Income Tax Liabilities Statistics, 28 June 2019, available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/812844/Income_Tax_Liabilities_Statistics_June_2019.pdf
[10] https://www.theguardian.com/inequality/2018/sep/05/qa-how-unequal-is-britain-and-are-the-poor-getting-poorer

asset price inflation and inheritance as well as from differences in income, so is likely to intensify as time goes on, unless there is a change to the UK's policy environment.

The FCA needs to regulate for the majority, so we recommend that it takes care in using the LCM as a guide to action. It is better to be guided by the actual savings (or non-savings) behaviour revealed in the FCA's financial lives surveys.

Generational descriptions

The generational categories[11] used by the FCA are in line with generally accepted marketing practice. However, from our work with young people we question the breadth of the age range specified for Millennials. In our view, people born in the early to mid-1980s have more in common with Generation-Xers, while people coming of age post-credit crunch (born after 1992-3) have different digital, economic and financial experiences from older Millennials. Young Millennials have been significantly more affected by austerity, student debt and the exclusionary level of house prices than older Millennials. They are also the 'smartphone generation' for whom there is no longer a real distinction between the offline and online worlds. We think the financial lives of different groups of Millennials (as officially defined) need a more disaggregated approach.

Also, the FCA should not forget the pensioner generation(s) born before the Baby Boomers, who have distinct financial regulation needs, particularly around pensions and the loyalty penalty in financial service pricing.

Differences of gender and sexuality

As well as looking at the income and wealth differences within generations, the FCA should look carefully at the experiences of different genders. The 'life cycle' continues to have a significantly different meaning for women than it has for men, given that it is still women who tend to take most time away from paid work for childcare and family-raising, with consequences for workforce participation, income and lifetime capital accumulation. For example, as shown in the FCA's Financial Lives survey, women's pension accumulation is on average much lower than men's pension accumulation. Single women with children (paid-working as well as not in a paid job) have the highest rate of poverty in the UK.[12]

In its analysis of inter-generational issues, FCA should develop a gender perspective, in particular:

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[11] Baby Boomer, Generation X, Millennial.

[12] https://wbg.org.uk/blog/dwp-data-reveals-women-continue-to-be-worst-affected-by-poverty/

- Show awareness of the financial arrangements in relationships, families and households, for example decision-making about bank accounts, credit cards and the household budget, responsibility for child care, lending and borrowing within the household, responsibility for debts, sharing of income and resources, savings, investments and inheritance.
- Throw a light on what it means in terms of lifetime asset accumulation (savings, pensions, housing equity, National Insurance etc) to take time out of the paid workforce to look after children or others needing care and empower women to take compensating actions, such as topping up their NI years, increasing pension-saving rates, pursuing higher-paid work or negotiating better deals with their partners.[13]

As well as considering gender differences, the FCA should look at the different generational experiences of LGBT+ people, especially given the trend for younger people to express a broader range of identifications than members of older age groups[14] and therefore be more likely to live in relationships and households following a life course differing from the traditional.

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?

Much wealth accumulation in the UK arises not from income smoothing but from inheritance and asset price appreciation. A house owner, for example, makes a leveraged investment, which in an appreciating market can lead to very high returns. When buying a house, a person (or couple) may make a 20% deposit. If their house then doubles in value – a frequent experience in the UK's inflating house market in the last few decades – their equity expands *six-fold*, and for most people this is tax-free capital gain.

The pursuit of tax-free unearned income has a distorting effect on the UK economy and UK society. One effect is that UK real estate carries an ever larger debt burden (outstanding mortgage debt has risen from £500 billion to £1.4 trillion in the last twenty years[15]). Another effect is that many of the young are finding that they are excluded from access to the housing market.

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[13] See The Money Charity policy on women and financial wellbeing, available at: https://themoneycharity.org.uk/media/The-Money-Charity-Policy-Paper-Women-and-Financial-Wellbeing.pdf

[14] https://www.telegraph.co.uk/news/2018/07/05/two-thirds-generation-z-identify-exclusively-heterosexual/

[15] The Money Charity, *The Money Statistics July 2019*, page 6.

The FCA should consider whether, in cooperation with the Bank of England and other regulators it can design a system of property finance that maintains a more proportional relationship between house prices on the one hand and GDP and incomes on the other, a system that would be effective over a number of decades and economic cycles and would maintain a better inter-generational balance in asset ownership.

At the same time, we should not over-emphasise inter-generational differences. Empirically, differences in wealth and income *within* generations are much larger than those between generations.[16] Each generation has a proportion of people living below the poverty line and a proportion that are rich. These groups have different needs for the FCA to respond to. For example, low and middle income groups may be more interested in a ban on the 'loyalty penalty' in pricing of financial and other products, while high income groups might prefer the FCA to focus on the regulation of managed investment funds.

The Money Charity works more with low and middle income people than with high income people. For the groups we work with, the regressive impact of high cost credit, the loyalty penalty and the 'poverty premium' are the most relevant financial regulation issues. We urge the FCA to continue its work programmes in each of these areas and to introduce cost-of-credit caps and other modifications to the rules where the evidence justifies it.

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?

Our view is that it is less about products and more about the overall ecosystem in which financial products and services are offered and sold to consumers. This view was also advanced by many of the participants and panelists at the FCA's Intergenerational Differences Conference on 2 July 2019. For example, Iona Bain (The Young Money Blog) pointed out that many young people still feel the need for personal financial advice and like to go to bank branches for this purpose. Anne Richards (CEO of Fidelity International) said that what was needed was an 'advice solution sitting within the product ecosystem' that stands above the products themselves.

In young people workshops run by The Money Charity, we find that it is not necessary to tell people about apps or the Internet (they are fully conversant) but to explain basic financial concepts such as 'what is a budget?' or 'which bills are priority bills?'

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[16] On average the wealthiest age-group in the UK is those aged 55-64. Their median wealth is 8.2 times the median wealth of 25-34 year-olds. However, the 90th percentile of 25-34 year-olds has wealth that is *fifty* times greater than the wealth of the 10th percentile of 25-34 year-olds. Other age groups have similar inter-percentile ranges. Source: ONS, *Wealth by Household Characteristics Great Britain, July 2014 to June 2016*, Table 1.

Rather than thinking about 'products', consumers tend to think about personal needs and how to go about finding suitable financial solutions for those needs. How to navigate the ecosystem is the key challenge.

In our view there are two requirements:

1) A method of safely navigating the complex and often bewildering world of financial products and offers, and

2) A means of closing the advice gap.

Safe navigation

In the UK we have competitive financial markets and the FCA has a statutory duty to promote competition in consumers' interests. Competition is good when it produces quality products at competitive prices, but a side-effect can be excess of choice: many suppliers (in some cases hundreds or thousands) offering products that claim to address the same needs. In markets for more-or-less homogeneous goods (petrol, potatoes, cups of coffee etc) having numerous suppliers is generally a good thing. Because of the essential similarity of the product, competition in these markets establishes competitive prices without overloading the consumer with excessive choice.

However, when products are complex and differentiated, as they are in financial markets, the presence of many producers can create bewilderment. It is known psychologically that excess choice causes consumers to 'turn off'[17] and can prevent people from participating in a given market at all. This is made worse when there is a risk of scams and fraud, which unfortunately are widespread at the present time.

What is needed is some form of curation to reduce the choice to manageable proportions, and to weed out demonstrably shoddy products and scams. While The Money Charity does not recommend particular products, we spend a lot of time trying to simplify the processes of financial management and presenting them to workshop participants and resource users in memorable forms.

Curation is a non-trivial problem, because someone has to do the sorting and pre-selection of products without showing bias against any particular provider. Providers who are excluded in pre-selection will naturally protest against their exclusion. In the supermarket context, product buyers and managers make the pre-selection decisions, ensuring the consumer has only a few choices for each type of product on the shelves. In investment markets, Independent Financial Advisers perform this function for wealthy clients. But who does it for everyone else? Price comparison sites may help, but they are sometimes biased by their method of earning revenue.

[17] https://en.wikipedia.org/wiki/Overchoice

The FCA has begun work on optimising consumer communications, but this is only part of the solution, as it does not reduce the quantity of competing offers. We suggest that the FCA and MAPS work together on a 'curation project' to come up with practicable strategies for product navigation and pre-selection for final consumers. This may be partly about standardising product terms and increasing transparency, partly about developing technology/AI to carry out pre-selection in a non-biased way. It may also involve an expansion in the availability of free financial advice and guidance.

The advice gap and the advice/guidance boundary

The Money Charity has long been concerned about the current boundary between 'guidance' and regulated advice, which in our view leaves a large grey area. A conservative interpretation of the boundary restricts the work of financial capability charities and informal money practitioners.[18] What sits in the grey area is 'general advice tailored to individual circumstances', the type of advice which would benefit millions of people who cannot afford an IFA.

In our financial capability work, people frequently ask questions relating to their specific situation, for example to do with credit card debt, savings products, pension contribution rates etc. To answer these questions effectively, the workshop leader has to give a personalised answer, along the lines of 'if you pay £x a month off your credit card, you can save £y in interest' or 'you can repay your loan in z months instead of p months'. This is not making a decision for a person, but providing them with a specific answer to a specific question in a way that allows them to weigh up the options.

It is in the nature of financial advice/guidance, that to be understood, answers usually need to be specific. An excessively general answer, treating the advice/guidance boundary in a conservative manner, may leave the questioner simply not knowing what answer they've been given. We appreciate the reasons for there being an advice/guidance boundary, but we think the current interpretation of the current boundary leaves a gap, and it is a gap we encounter frequently in our work. We urge the FCA, working with MAPS, to develop a clearer boundary that would enable organisations like The Money Charity to provide personalised answers to the questions we are regularly asked.

As long as there is a lack of clarity, there is an opening for potentially risky interpretations in the financial guidance space. On the other hand, any risks arising from

[18] For example, GPs or resident advisers/case workers for housing associations.

a new approach can be mitigated by moving forward with quality standards for financial capability work, which is something we have recommended to MAPS.[19]

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.

In thinking about differing generational experiences, we can see opportunities to reform the choice architectures and anchors affecting certain classes of financial product.

'Choice architecture' has been defined as:

> 'The design of different ways in which choices can be presented to consumers, and the impact of that presentation on consumer decision-making.'[20]

'Anchoring' is:

> 'A cognitive bias where an individual relies too heavily on an initial piece of information offered (considered to be the "anchor") when making decisions.'[21]

Each financial product comes with a built-in choice architecture. When firms are left to their own devices, they often design choice architectures to boost their revenues and profits, even where this is to the detriment of consumers. For example, it has been found by researchers at the Universities of Newcastle and Durham that digital credit interfaces 'minimise consumer deliberation and speed up the lending process, trivialising consumer decision-making around borrowing.'[22] This includes subtle psychological effects such as consumers being drawn toward the middle of the lending slider-bar because this feels 'reasonable' and 'not desperate',[23] when in fact the slider bar minimum and maximum have been set by the company that developed the app in the knowledge that people tend to go for the middle amount.

'Anchoring' is an aspect of choice architecture that has a strong influence on consumer behaviour. This is where consumers gravitate toward a decision or value that has been chosen by firms or regulators even where it does not meet the consumers' best

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[19] https://themoneycharity.org.uk/media/The-Money-Charity-Response-MAPS-Listening-Document-Jun-19.pdf
[20] https://en.wikipedia.org/wiki/Choice_architecture
[21] https://en.wikipedia.org/wiki/Anchoring
[22] Gordon et al 2018, *Digital Credit, Mobile Devices and Indebtedness: Online Borrowing in the High-Cost Short-Term Credit Market*, Newcastle University, ESRC and Durham University, page 5.
[23] Ibid, page 11.

interests. Anchors can be a certain minimum, maximum or default rate or decision. Three currently influential anchors are:

- The credit card minimum repayment (set by FCA rules and firms in the market).
- The default pension savings rate under auto-enrolment (set by Government).
- The 'loyalty penalty' whereby consumers who take no positive action are automatically moved to a higher price or lower savings rate at the end of the term of their current contract (set by firms in the market).

The financial and generational effects of these are set out in Table 1:

Table 1: Effect of consumer financial anchors

Anchor	**Risk of poor outcome**	**Generation(s) most affected**
Credit card minimum repayment (fees and charges plus 1% of principal)[24]	High users of credit cards fall into long-term debt at short-term rates of interest	Generation X and older Millennials who are cash-strapped and in debt
Default pension savings rate under auto-enrolment (currently 8% including employer contribution).	Pension accumulation is too low for an adequate pension in retirement	Generation X, Millennials and Generation Z.
The loyalty penalty (higher prices for loyal customers)	Passive consumers pay more or receive less than active consumers. Firms receive an economic rent from passive consumers.	Affects all age groups, but Baby Boomers and pensioners probably most affected.

These anchors, choice architectures and rules need to be changed to make it more automatic for people to make better financial decisions. According to Richard Thaler, one of the founders of behavioural economics, the point of a good choice architecture is to 'help people make good decisions, *as they would judge themselves.*'[25]

From this point of view, we propose the following changes to the three anchors highlighted:

[24] Such minima may apply to other credit products too.
[25] Richard Thaler and Cass Sunstein 2009, *Nudge - Improving decisions about health, wealth and happiness*, page 12.

Table 2: Potential new anchors and their effects

Anchor	Potential new rule	Effect of new rule
Credit card minimum repayment	Raise minimum repayment to 1.7% with a £ ratchet***	Credit card debt would be paid off over 3-4 years, instead of 25+ years under the current rule.
Default pension contribution rate	Raise contribution rate in steps to 15% (combined employer, employee and government contribution)	Pension pots would begin to grow toward a size that would deliver an adequate pension.
Loyalty penalty	Ban the loyalty penalty other than a time-limited switching bonus.	Long-term loyal customers would receive fair prices without having to switch providers.

*** A '£ ratchet' means that the first month's repayment in pounds becomes the minimum repayment for the second and subsequent months. If the borrower increases their borrowing, a higher £ minimum repayment is established in that month's bill and becomes the new minimum repayment.

Changes to the rules and defaults as set out above would imply a shift by the UK from a borrowing culture towards a savings culture which in turn would have macroeconomic implications. At present, the UK relies on housing and consumer credit growth to drive overall levels of demand. If the credit tap were to be switched off, the economy would flat-line or decline. Any increase in aggregate saving arising from changed credit and savings rules would need to be matched by an increase in investment by the private and/or public sectors,[26] which is unlikely to happen spontaneously and would need co-ordination by HMT and Government.

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?

Key reforms/innovations we would like to see at the present time are:

- Continued moves by the FCA to regulate high cost credit in the interests of consumers, for example by raising the credit card minimum repayment to ensure that credit card lending is short-term lending rather than long-term lending at short-term rates of interest.
- Increased coverage of pensions auto-enrolment and a staged increase in the pension contribution rate towards a level that would provide adequate pensions

[26] An increase in national savings without an increase in investment would lead to a recession, as total demand in the economy would fall.

in retirement. We recognise this is a Government/HMT/DWP responsibility more than an FCA responsibility, but the FCA will have a complementary role.

- Tighter regulation of mortgage lending, consistent with establishing a healthy relationship between house prices, incomes and the economy over a period of several decades and economic cycles. This is a shared responsibility of FCA, Bank of England and Government, requiring supply-side as well as demand-side intervention.
- Reconsideration of the advice/guidance boundary, so that charities, consumer groups and official sources of advice can reduce the gap between IFA-provided advice and the advice/guidance provided to those who cannot afford IFA advice.
- Extension of pensions advice via MAPS to people of all ages and DB members as well as DC members.[27]
- Introduction of an explicit Duty of Care on the part of financial service firms to avoid reasonably foreseeable harm to consumers and to act in the best interests of consumers.
- Careful regulation and supervision of the forthcoming Pensions Dashboards, to avoid the mis-selling risk of Dashboards being used to sell inappropriate pension consolidation.
- Banning the loyalty penalty in pricing financial services and in the interest rate paid on cash savings, except for a time-limited switching bonus.
- Amending the regulatory perimeter so that all financial products and services promoted to retail customers are FCA-regulated.[28]
- Redesign the product ecosystem and navigation to promote financial capability, as outlined in our answer to Question 3.

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?**

[27] Pension Wise face-to-face advice is currently limited to DC scheme members aged 50+.
[28] At present a number of retail financial products such as gold or certain types of crypto-asset (or advice on such investments) fall outside the FCA perimeter.

In relation to our workshop client groups (mainly secondary school learners and working age adults) we do not generally see unacceptable issues of age discrimination in product design. However, as indicated in Table 1 above, we do see variation in the ways that different financial practices impact on different generations. This arises from the demographics relating to the financial product, service or practice in question.

In general, there is an ongoing problem of consumer harm that the FCA has itself drawn attention to.[29] In our view, good financial regulation should be supported by an explicit **Duty of Care** placed on financial service firms. Such a duty should be to 'avoid reasonably foreseeable harm to the consumer' and to 'act in the best interests of the consumer'[30] A Duty of Care has general relevance in consumer financial services, but is particularly relevant at the present time to pension investments, including consumers exercising pension freedoms (many of whom are Baby Boomers). There are issues around:

- Information given to consumers about their pension freedom choices, including the tax and other implications of those choices.
- DC and DB pension transfers.
- Costs and charges of pension funds.
- Marketing of pension investments.
- Targeting pension advice in time to younger people.

Pensions are an aspect of the ecosystem we described in our answer to Question 3: an environment in which there is a superabundance of complex products, making choice for the consumer very difficult in the absence of simplified navigation.

A prominent initiative in the pensions space is the Pensions Dashboards project being overseen by DWP and MAPS. Pensions Dashboards can potentially contribute to financial capability and we support the creation of a Pensions Dashboard for this reason. We would prefer there to be a single nationally recognised dashboard rather than multiple dashboards. However the decision has been made to go down the multiple dashboards route. This carries a mis-selling risk, as potential Dashboard providers are looking to Dashboards as a means of marketing pension consolidation. We do not know yet what standards of disclosure and product safety will apply.

The scale of risk and potential consumer damage in the absence of a Duty of Care is illustrated by the suspension of the Woodford Equity Income Fund, which was until recently a big player in retirement income provision. Notwithstanding the lessons from

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[29] For example, FCA 2019, GC19/3, *Consultation on Guidance for Firms on the Fair Treatment of Vulnerable Consumers*.

[30] Avoidance of reasonably foreseeable harm comes from the Law of Tort while acting in the consumer's best interests comes from the FCA's insurance rules.

the last crash, it appears that WEIF made the mistake of 'borrowing short and lending long' without a sufficient liquid cushion. This is the same mistake that led to the demise of Northern Rock a decade ago. The Governor of the Bank of England has said that such illiquid investment funds are 'built on a lie',[31] which suggests their mode of operation needs to change.

It may be that the rush of money *into* WEIF a few years ago[32] was a case of 'following the herd' and 'naïve investing',[33] but the fact that such behaviour is common should prompt regulators to take pre-emptive action.

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 objectives, we can play a role? If so, which ones and in what way?

A number of the issues identified in this response involve other branches of government with an active or supportive role for the FCA. These are:

Table 3: Policy proposals involving other branches of government as well as the FCA

Proposal	Other branches of government involved
Regulation of Pensions Dashboards to avoid mis-selling risk	DWP & MAPS
Extension of pensions advice via MAPS to people of all ages and to DB members as well as DC members	MAPS
Tighter regulation of mortgage lending to maintain better balance between house prices, incomes and the economy	Bank of England, HMT and Government more broadly
Reconsideration of the advice/guidance boundary	HMT, MAPS
Improved coverage of auto-enrolment and a higher rate of contribution to achieve more adequate pensions for the majority	DWP, HMT, The Pensions Regulator

(end)

[31] https://www.reuters.com/article/us-woodford-inv-suspension-carney/illiquid-investment-funds-built-on-a-lie-boes-carney-says-idUSKCN1TR1LK
[32] https://www.theguardian.com/money/2019/jun/04/neil-woodford-fund-manager
[33] Thaler & Sunstein 2009, *Nudge*, pp 58 and 128.

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