INTERGENERATIONAL DIFFERENCES DISCUSSION PAPER

RESPONSE TO THE FINANCIAL CONDUCT AUTHORITY

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About ICAS

ICAS is a professional body for more than 22,000 world class business men and women who work in the UK and in more than 100 countries around the world. Our members have all achieved the internationally recognised and respected CA qualification (Chartered Accountant). We are an educator, examiner, regulator, and thought leader.

Almost two thirds of our working membership work in business and in the not for profit sector; many leading some of the UK's and the world's great organisations. The others work in accountancy practices ranging from the Big Four in the City to the small practitioner in rural areas of the country.

We currently have around 3,000 students striving to become the next generation of CAs under the tutelage of our expert staff and members. We regulate our members and their firms. We represent our members on a wide range of issues in accountancy, finance and business and seek to influence policy in the UK and globally, always acting in the public interest.

ICAS was created by Royal Charter in 1854.

Overall comments

The ICAS Pensions Panel welcomes the opportunity to comment on the Financial Conduct Authority's (FCA's) discussion paper on Intergenerational Differences (DP 19/2, published in May 2019).

Our responses to the specific questions, set out below, are limited to the pensions-related aspects of the discussion paper.

The discussion paper successfully articulates key inter-generational differences across the three generations within the scope of the paper: Baby Boomers, Generation X and Millennials. However, we believe that changes are needed more broadly to pensions policy and in other related policy areas, specifically pensions taxation and the funding of social care, before effective changes to financial services provision can be made. The absence in the discussion paper of any new proposals illustrates that the FCA's scope to deliver change, along with the industry, without policy level changes is limited.

We welcome the recent statement made by the Minister for Pensions and Social Inclusion, Guy Opperman MP, that he believes that a new Pensions Commission is needed to foster debate on major issues such as: pensions tax relief; auto-enrolment and pensions for the self-employed and; pension transfers and the pension freedoms. We would support the establishment of such a Commission but would prefer to see the establishment of an independent pensions/ retirement savings commission as a standing advisory body which seeks to achieve long-term stability for the UK pensions system.

With members of the next generation, Generation Z, entering the workforce, pensions policy, pensions regulation and products will need to reflect their lifetime saving and retirement income needs. However, we need to look to the generations following, Generation Alpha and beyond, in tackling the financial education needs of those entering the education system.

Contact details

If you have any queries arising from this briefing, please contact Christine Scott, Head of Charities and Pensions at ICAS, on 0131 347 0238 or at cscott@icas.com.

Question 1
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?

Response
We broadly agree that the main factors driving changes in consumer needs are:

- Demographics.
- Low interest rates.
- House prices and real earnings.
- Labour market.
- Student funding.

We would also add:

- ‘Opportunities and threats from increased use of technology’ and we acknowledge the references to technology in Chapter 5 of the discussion paper on pensions.
- ‘Gender gaps’ is another aspect of the debate where intergenerational differences exist, for example the gender pensions gap, which is likely to narrow over time as a consequence of societal change and social policy. We acknowledge that the gender pensions gap is implicit in the examples in Chapter 5.

‘Opportunities and threats from increased use of technology’ is included within the list of macro-trends likely to drive changes across the sector identified by the FCA and The Pensions Regulator in their call for input to their 2018 joint strategy proposals.

The macro-trends mentioned in these proposals were:

- Feedback from the macro-economy.
- Changing demographics.
- Increasingly stretched household finances.
- Opportunities and threats from increased use of technology.
- Labour market changes.

Socio-economic change is the over-arching driver behind the intergenerational differences set out in the discussion paper. This will always be the case. Expectations and priorities have changed, for example, everyone today expects to have a smart phone, i.e. things considered luxuries in the past are viewed as essential today.

Question 2
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?

Answer
In our response to question 1, we raised the issue of opportunities and threats from increased use of technology. In relation to pensions, we believe that Millennials and future generations will be able to take advantage of developments in fintech to a greater extent than previous generations. There are some references in Chapter 5 on pensions to technology but we believe the potential for future generations to achieve better pension outcomes as a result of technology are greater than is expressed in the discussion paper.

In a defined contribution environment and with the pension freedoms there is a need for independent financial advisers (IFAs) to give expert advice to a wider cohort than there has been traditionally. People need to understand how to engage effectively with an IFA and with agencies who provide guidance, e.g. the new Money and Pensions Service.

Question 3
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.

Response
We believe policy is key factor in driving innovation in product design including the manner in which the policy is made.

Pensions policy needs to be approached with the long-term in mind especially as defined benefit provision in the private sector winds down and saving into defined contribution arrangements continues to increase. Policy should focus on getting as many people as possible saving enough for their retirement and protecting these savings. New policies in the area of pensions should be properly thought through, for example, the pensions freedoms freed savers from the need to purchase an annuity but it made savers with defined benefit pensions more vulnerable to bad advice and to scams. The freedoms have also increased the potential for people to run out of pension savings in later life.

Policy development should include greater consideration of the possible unintended consequences of a particular course of action prior to implementation. This would likely increase positive outcomes and reduce the need for minor tinkering in the short-term and for major changes at a later date. If the industry believes that policies are likely to remain in place for the long-term, this could better encourage innovation in product design.

We believe that the pensions dashboard project will benefit current and future generations and will be most valuable to those who have access to a pensions dashboard when they enter the workforce.

We believe that products for the mass market should be designed with a key of objective of meeting the needs of savers who do not any specialist pensions knowledge, including meeting their information requirements. We believe there is scope to develop communications around products which are based on the latest thinking around human decision-making and behavioural economics.

In our response to question 4 we comment on the potential for fintech to deliver solutions for the mass market which also meet the needs of individual savers.

Question 4
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?

Response
Fintech will have an increasing impact on how customers access advice and guidance and understand financial products. Technology will be able to deliver tax efficient solutions for individuals based on their specific circumstances and will be capable of providing financial planning tools to individuals from their first employment. This should reduce the cost of financial advice and make it more accessible; it also highlights that there is an important role for employers in relation to pensions – a different role to the role employers have in relation to defined benefit provision.

More/better financial education in schools is needed from an early age in order to influence future behaviour towards money and saving. This is part of preparing people to get the most out of advice and guidance and financial services products.

With more now understood about how human beings make decisions and avoid making decisions, and about when and how habits are formed, there is scope for taking this into account in developing public policy more broadly, in the delivery of financial education in schools across different age groups and in the design of advice and guidance services and financial products. The success of automatic enrolment on bringing on board millions of new pensions savers is in part due to inertia, as eligible workers normally don't choose to opt out.

With savers in a defined contribution world having to take responsibility for saving and saving enough for their retirement, it is essential that school leavers' are equipped with sufficient knowledge about how to save appropriately for their long-term financial well-being, as well as managing their day to day finances

We expand our views of financial education in schools in our response to question 7.

Question 5
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?

Response
From a pensions perspective, communications need to be personalised and consumer protection arrangements will need to evolve to meet increasing reliance on fintech.

There are developments in the pipeline such as the pensions dashboard project which should support increased retirement saving by individuals.

Question 6
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?

Response
From an FCA perspective in relation to pensions, the following would protect those with defined benefit pensions more than those with funds initially saved in defined contribution arrangements so would likely benefit Baby Boomers and Generation X the most:

- More attention given to the regulation of the investment vehicles receiving 'liberated' funds.
- Dodgy financial advisers, who have given inappropriate transfer advice, to be closed down more quickly.

Some advisers are being allowed to operate with constraints where it would be better for consumers for the adviser to be closed down. Advisers are then free to appeal but consumers are better protected meantime.

Question 7
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?

Response
There are significant public policy issues around retirement saving and planning for later life events (for example, paying for social care and financial education in schools) which need to be addressed by government.

Vital to assisting each generation plan for retirement is joined up policy-making by UK government departments, specifically HMT, HMRC and the DWP. Education is a devolved matter and we are aware of financial education initiatives taking place in schools throughout the UK, but strategic approaches are slow to develop. We also recognise that the provision of social care is another devolved matter and this needs to be borne in mind by policy-makers, regulators and product providers as solutions to funding social care are pursued.

We believe that the FCA, along with other stakeholders, have a responsibility to engage with government at all levels to encourage a joined up, long-term approach to pensions policy and related policy areas.