ICAEW REPRESENTATION 70/16

Ageing population and financial services

ICAEW welcomes the opportunity to comment on the paper DP16/1, *A collection of perspectives: Ageing population and financial services*, published by the Financial Conduct Authority on 22 February 2016, a copy of which is available from this link.

This response of 15 April 2016 has been prepared on behalf of ICAEW by the Financial Services Faculty. As a leading centre for thought leadership on financial services, the Faculty brings together different interests and is responsible for representations on behalf of ICAEW on governance, regulation, risk management, auditing and reporting issues facing the financial services sector. The Faculty draws on the expertise of its members and more than 25,000 ICAEW members involved in financial services.

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GENERAL POINTS

1. ICAEW welcomes the opportunity to comment on the perspectives outlined in DP 16/1. We believe the Discussion Paper provides some valuable observations and insights on the important matter of meeting the needs of an ageing population. Getting to grips with the financial implications of managing increasing longevity has profound implications at all levels, both as regards ensuring that individuals make adequate provision for their retirement years and in terms of addressing the associated challenges demographics and longevity will have on the sustainability of the public balance sheet.

RESPONSES TO SPECIFIC QUESTIONS

Q1: Do you have any views on the ideas set out in this Discussion Paper and can you suggest areas of focus that would improve financial markets for older consumers?

2. Individuals need a stable framework within which to make provision for retirement and so that they can manage their resources efficiently and with confidence in their later years. To address these challenges, and so that firms can implement a sustainable long-term business plan that enables them to serve the needs of their customers, a coherent long-term public policy strategy is needed. Above all else industry individuals and families need a long period of stability in the area of pensions, tax and savings legislation.

3. Many of the contributors to the Discussion Paper refer to the unprecedented increased longevity of the population, which makes it increasingly important that the population is made aware of the implications – specifically on their health and need to understand and plan for their financial requirements. Whilst over 85s are the fastest growing demographic in this country, policy should seek to empower consumers to take control of their financial futures from much younger, rather than simply treating 'problem generations' as they appear.

4. Regular checkpoints and effective illustrations will help to make this requirement and potential impacts more tangible, together with the evolution of technology but also a robust and reliable marketplace for financial education, information and advice.

5. Clearly older consumers are a disparate community of individuals with differing levels of financial capability and different levels of income and wealth. However, sustainability of income is a common issue that tends to bind this cohort and which is an area that needs to be regarded as a public policy priority moving forward. From a practical perspective the focus needs to fall into 2 key areas: people that are in or close to retirement and who therefore need guidance and advice on how to best manage their accumulated resources; and preparing the next generation of savers so they are better equipped to manage the demands of increasing life expectancy and make adequate provision so that they have a sustainable retirement income.

6. The introduction of Freedom and Choice in Pensions means retirees drawing their pension pots are now faced with considerably more complexity and uncertainty than before and at a critically important time in their life. To help older customers manage this additional layer of complexity individuals need access to financial guidance and advice on an affordable basis. Consumers also need to be motivated to use these services both when considering drawing their retirement savings and at regular intervals thereafter. Some of the recommendations outlined in the Financial Advice Markets Review (FAMR) draw attention to the need to find better ways to help individuals make well-informed decisions on how to best manage their personal finances. The perspectives on default pensions and the experiences of countries with liberalised annuity purchase regimes outlined in the Discussion Paper provide valuable insights for the UK following the introduction of Freedom and Choice in Pensions.

7. More needs to be done to make it more appealing for professional advisers to enter the market for delivering good quality guidance and generic financial advice that falls short of a personal recommendation and which is not classified as a Regulated Activity under the

Regulated Activities Orders. To enable firms to deliver this type of service on an economic basis, either face-to-face, via a digital medium, or a combination of the two, a supportive regulatory framework is required with detailed guidance to make clear where the boundaries fall and how obligations can be managed.

8. The majority of consumers have relatively straightforward needs and therefore need relatively straightforward products. As a general rule complexity leads to disengagement and adds to costs. Consumers therefore need to be able to access simple, transparent products that are designed to meet these core needs. For older customers priorities tend to revolve around access to a secure income. Simplifying products in terms of core characteristics and core purpose, explained in comprehensible, succinct and straightforward terms, would greatly help older consumers (and consumers more generally) to identity which type of product is likely to meet their particular needs and to better understand the pros and cons of different types of financial product. Because retires are generally less likely to be able to withstand significant fluctuations in income and /or capital values, it is important that the products they invest in are generally exposed to less volatile markets and underlying investments. For example, well run and transparently priced with-profits funds have often delivered steady returns over time thereby providing older consumers with relatively stable long-term investment vehicles that are suitable to meeting their needs.

Q2: Are there specific products, services or distribution channels that are particularly associated with poor outcomes for older people?

9. In general terms we believe what determines good and bad outcomes for older consumers is not fundamentally different than for any other age group. However, we generally agree with the points made the Discussion Paper in connection to the less favourable position older consumers often face in the area of mortgages, where the market tends to be misaligned with changing demographics and evolving customer needs and which is an important area.

10. We are also mindful of the past issues regarding commission based staff in for example banks that were incentivised to identify customers who had ‘come into some money ’ (eg retirement or inheritance) and advise them to invest (sometimes for the first time) a disproportionate amount of their wealth in equity based and /or unsuitable products. We would hope that these practices are a thing of the past.

Q3: What is the role of industry and other stakeholders (collectively as a market or at an individual firm level) in addressing the issues identified?

11. In responding to this question we have also taken into account the recent ABI and BIBA Code of Good Practice regarding support for potentially vulnerable motor and household customers at renewal; and the ABI, BIBA, HM Government ‘Transparency and Access in Motor and Travel Insurance for Older People – An Agreement on Age and Insurance.

12. As outlined above to create a market which is better able to meet the long-term needs of older customers all stable public policy and regulatory framework is needed at all levels. Individuals need sufficiently strong incentives to save for the longer-term. Savers need to be confident that their pension pots and other savings vehicles are secure and that the basis on which they paid into these long-term savings vehicles will be honoured and legislation moving forward needs to be consistent with supporting that long-term public interest objective.

13. We support the idea of a pension’s dashboard so that individuals can keep track of their pension pots and provision, which needs to be regarded as a public policy priority. It should also become a norm for individuals to have a financial health check at regular intervals so that individuals and families develop greater awareness of the importance of taking greater responsibility for their personal financial health. The timing of these reviews could be linked to specific life stages, e.g. starting work, marriage, children and retirement – or, say, every 5 years. To achieve this objective different stakeholders will need to work collectively to achieve this common goal, with government and its institutions playing a pivotal role moving forward.

Additionally, established community institutions, such as the GP surgery, could be used to help promote the idea of the regular financial health check and to encourage financially healthy habits.

14. We believe that more can be done in the area of qualifications and training to help firms and their advisers to meet the needs of older customers, with greater emphasis being placed on developing communication and soft skills.

Q4: Do you have any evidence of effective approaches to meeting the needs of older people that you have already developed or tested, or that you have observed, in other markets (UK and international)?

15. Anecdotal evidence suggests that Australia, Canada. Holland and the Nordic Countries generally have a good track record in the area of pensions and retirement savings initiatives, which may offer good examples of how to achieve positive long-term results.

16. In the UK, NS&I tend to offer straightforward products that provide realistic returns and which are designed to meet the needs of older customers. On the other side of the coin, the low interest rate environment means that older customers can often be lured into inappropriate higher risk and / or overly complex investments in their search for yield. In this regard we believe that the extension of the ISA regime to include peer-to-peer lenders will not necessarily prove to be in the best long-term interests of many investors.

Q5: Do you have any evidence of regulatory barriers that prevent effective markets for older people?

17. We have no additional comments to make.