ICAEW
REPRESENTATION 80/19

DP 19/2 INTERGENERATIONAL DIFFERENCES

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ICAEW welcomes the opportunity to comment on the Intergenerational Differences published by Financial Conduct Authority on 2 May 2019, a copy of which is available from this link .

The FCA's paper opens an important discussion about the role of financial services firms in ensuring the intergenerational contract is fair and sustainable. ICAEW has a keen interest in this area and continues to undertake work to explore the issues intergenerational differences create as well as solutions. This includes our Intergenerational Fairness Survey conducted in 2017 across 10 European countries and our work looking at the role the financial services industry plays in reports like Audit insights: investment management. ICAEW also helps Chartered Accountants to understand how they can contribute to meeting the UN's Sustainable Development Goals, some of which address the challenges caused by intergenerational differences.

This response of 1 August 2019 has been prepared by the ICAEW 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.

ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of strong economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 150,000 chartered accountant members in over 160 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical and ethical standards.

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KEY POINTS

1. This response has been prepared based on work and research previously conducted by ICAEW in this area which may be useful for further consideration.

2. In 2017 ICAEW conducted a survey of 10,000 European citizens on intergenerational fairness. The results of the survey can be found here, alongside a proposed decision making framework for intergenerational fairness.

3. In 2018 we published Audit insights: investment management which called on the industry to address the fact that societal and demographic changes and public policy measures have created an urgent need for providers of long-term savings products to serve society.

ANSWERS TO SPECIFIC QUESTIONS

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?

4. We agree with the broad factors identified as being the main drivers of economic and social change. The effect that these have on changing consumer needs will continue to evolve. Government policy can make these needs more or less acute within generations, and the role of private businesses (ie care) and the financial services industry in meeting those consumer needs may be less consistent depending on government policy and the relative speed and impact of change in a particular area.

5. The significant uncertainty for consumers around the cost of later life care cannot be underestimated. The business challenges faced by the sector indicate that the true cost of care may not be fully understood at this point in time[1]. In order for the financial services industry to have a role in helping individuals prepare for later life care, and meet its costs, provision of care needs to be a stable and sustainable business.

6. With regard to student funding, the number of changes made within a single generation, combined with the increasing proportion of the population participating in higher education amplifies the differences felt and exacerbates the feeling of unfairness within that generation.

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?

7. The FCA has identified the confluence of factors affecting how individuals build up and access wealth.

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?

[1] "Britain's biggest care homes rack up debts of £40,000 a bed" Financial Times, 14 July 2019

8. There is no single clear picture of how financial services providers are meeting changing needs across different age groups. As government provision decreases, innovation also becomes politicised, ie LISAs, Help to Buy ISAs and later life products. We have yet to see how these products perform in terms of meeting consumer needs over the long term.

9. In our report Audit insights: investment management, we pointed out that, especially with regards to savings, the issue is particularly acute for young people who have less disposable income and an ever-increasing period over which they need to save. While there is nothing new about younger people having limited spare cash, in the past many more products were aimed at smaller scale savings. For example, many life insurers used to employ a sales force that visited people at their homes to collect regular savings payments. However, various factors, including increasing and costly regulation, mean that the smaller saver is now less attractive and profitable to providers.

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.

10. We do not have any additional comments with regards to particular products.

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?

11. The FCA has a clear role in helping firms ensure they are focussed on sustainable business which is aligned with the purpose of financial services. The FCA's highly successful sandbox could have specific cohorts to address particular generational needs.

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?

12. We do not have any comments with regard to particular firms or markets in terms of particular products.

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?

13. Our 2017 found that citizens across Europe agreed that governments should take the lead responsibility for meeting key societal needs – with 8 in 10 seeing government as primarily responsible for measures to fund pensions and social care. The FCA must work with

Government and the financial services industry to help sure make policy initiated by Government is practical and sustainable.