Response to FCA discussion paper on ‘Ageing population and financial services’

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Priorities

- Industry must improve its research practice so that it understands the needs of its older customers and of the market composed of potential older customers.
- Industry should ensure that its design processes are inclusive in order to ensure that older consumers can be served by mainstream products to the maximum extent possible.
- FCA should lead the way by age-proofing all its processes, eg research, supervision, regulatory sandbox, Project Innovate, thematic work.
- The FCA should ensure that the market does not discriminate unfairly on the grounds of age. This is not limited to direct discrimination (e.g. in insurance, mortgages and access to banking). It is increasingly important to apply the lens of discrimination to markets in general and to address emerging indirect discrimination e.g. by use of price optimisation.
- The FCA should consider the outcomes older people need from a financial services market and whether an effective competitive market might look different for this group e.g. because of different switching behaviour.
- Ensuring an effective market in the new world of pensions must be a key priority given the extent of change and impact on people throughout retirement.
- We support the intention to facilitate affordable advice models, however we remain of the view that no advice is better than bad advice and that it will not be in the interests of older consumers if access to advice is increased but consumer protection and trust in advisers decreases.
- All stakeholders must remember that age is not just a single point in time. The market needs to ensure that products and services provide good outcomes for consumers not just at the point of retirement but also throughout retirement including into later older age. It is important that the Advice Unit consider how new models will meet the needs of consumers throughout their lives and not simply whilst saving and at retirement.
- Investment in providing more accessible information, improving existing guidance, such as Pension Wise, and developing a joined-advice journey from mid-life career review to later life financial health check could all help older consumers play a more active role in the market and so improve outcomes.

Introduction and general comments

We commend the FCA for the initiatives it has already taken towards enhancing good consumer outcomes, such as the ageing population discussion paper and the work on vulnerability and access. The vulnerability work, in particular, has had a positive impact on industry practice, prompting the BBA's vulnerability task force and actions by individual banks and building societies to address the issues raised.

Older consumers are an important and growing group in their own right, but have also proved a valuable lens through which to consider consumers more generally. Our ageing population is diverse and so can highlight a wide range of problems. Although older people are not vulnerable simply because of their age, some may be more seriously affected by issues (such as access to banking, third party access, price optimisation in insurance) than other groups but solutions for older consumers will often provide better outcomes for all consumers. Other consumers are also often affected more directly by failures in design for older consumers. For example, problems with powers of attorney and third party access are frequently described as issues for older people, but others seeking to support or care for older people will be directly affected.

We support the FCA's assessment that, although financial service provision is a small part of what might improve outcomes for older consumers it has a critical role to play in making their lives easier.

We note that many of the issues we raise in our response are not new, but are concerns that have been ongoing for many years. We hope that this clear focus on the needs of our ageing population will help to move these issues towards resolution, however our experience to date suggests that the FCA must ensure there is sustained attention and be prepared to take conclusive action if firms do not make adequate efforts.

Although there is much to be done now, it is important not to get stuck in the present. Demographic and other changes will present new challenges in the future, only some of which we may be able to predict now. For example, does the increasing uptake of equity release schemes suggest a better functioning market or conversely, an increase in financial distress among older age groups or reduced access to mortgage finance?

In order to prevent these challenges crystallising into consumer detriment, creating cost for the regulator, firms and consumers, we must change the way we approach serving older consumers. Key to this is understanding the market much better. Therefore we believe the single most important focus for firms and for the FCA at this time is to ensure that providers understand the diversity of the ageing population and the likely particular needs of groups within it.

We especially welcome the FCA's approach to this issue. We believe that the holistic assessment, willingness to collaborate with stakeholders including other regulators and to facilitate debate has the potential to create a step change in outcomes for older consumers. We recognise that the FCA cannot make all the required changes alone, but it is well placed to move the agenda forward and ensure that the financial services market works well for older consumers.

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?

1.1 Understanding our ageing population & inclusive design

The first step in improving outcomes for older consumers is understanding who those consumers are. We would like to see a financial services market in which:

- Firms have a good understanding of their existing older customers, including those holding legacy products.
- Firms have a good understanding of the potential market for their products and services, including older people.
- Product design and testing processes include a range of older consumers.
- Regulators, trade bodies, consultants, fintech firms and other organisations involved adequately include older people in their research.
- All those involved in financial services work together (to the maximum extent possible in a competitive environment) to fill in gaps in knowledge that require more substantial research. For example, it has been conjectured that spending in retirement follows a 'u-shaped' curve, however Age UK research to date has been unable to evidence this.[1] Without this understanding of the patterns of expenditure and desired expenditure by age, it is difficult to know what a good outcome for a retirement income product and to a certain extent advice would look like.

This would allow inclusive product development and regulation. Inclusive design is well established in other fields and The British Standards Institute (2005) defines it as:

'The design of mainstream products and/or services that are accessible to, and usable by, as many people as reasonably possible ... without the need for special adaptation or specialised design.'[2]

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[1] Evidence from the UK, USA and elsewhere seems to show closer to a straight line decline.
[2] More useful information on inclusive design is available for example at: http://www.inclusivedesigntoolkit.com/betterdesign2/whatis/whatis.html#p3b for example: Inclusive design does not suggest that it is always possible (or appropriate) to design one product to address the needs of the

Inclusive design avoids expensive and often ineffective niche solutions as much as possible. In our experience it is difficult for a specific niche solution to reach those who need it, for example older people may be unaware of chip and signature cards. If customers find reading a statement hard it may also be difficult for them to access information about how to get communications in alternative formats. Whilst some special adjustments may continue to be necessary it makes sense to minimise the need for these. It is particularly important for older people who may experience multiple overlapping disabilities or barriers and who may therefore find that solutions aimed at individual impairments may still not meet their needs.

Designing inclusively should also improve our understanding of when existing products and services are not suitable for particular groups and so help to identify the need for new products or adaptions which may be required under equalities legislation. It should increase our understanding of what older consumers do need and therefore the ability of firms to ensure good outcomes.

Age UK has long advocated a more inclusive approach to financial services. Although we are focused on the needs of older people, we believe strongly that many of the issues we raise apply to younger age groups as well. Design improvements initiated to meet the needs of older people are likely to lead to service improvements across the customer base.[3]

In addition to ensuring older people are adequately represented in ongoing research and product and regulatory design we would like to see a particular focus on:

- Understanding changing thinking skills and the impact of these on good consumer outcomes.
- An accurate and realistic understanding of how older people adopt new technologies – recognising that an important group will probably always be late adopters. This is likely to be as true in thirty years' time (with the technologies of the 2040s) as it is today with smart phones, Internet and social media. So policy must always envisage there being a gap between the 'latest technology' and a significant part of the older population. It is in the nature of technological dynamism that there will never be a complete catch-up.
- Understanding how technology is actually being used across the full diversity of the customer base.

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entire population. Instead, inclusive design guides an appropriate design response to diversity in the population through:

- Developing a family of products and derivatives to provide the best possible coverage of the population.
- Ensuring that each individual product has clear and distinct target users.
- Reducing the level of ability required to use each product, in order to improve the user experience for a broad range of customers, in a variety of situations.

[3] See for example Age Concern *An Inclusive Approach to Financial Products,* 2008.

- Designing in the context of disability expectancy, rather than putting all the emphasis on longevity, as emphasised in Age UK's contribution to the FCA's *Ageing population and financial services* discussion paper. 'Disability free life expectancy' is as important as life expectancy in thinking about the needs of older age groups. Some older people in their 80s are able to interact with financial services as well (or better) than people in younger age groups, while others, who may be much younger, face multiple disabilities that create large barriers to easy interaction. Financial service providers have not yet studied this particular customer group and developed comprehensive design solutions, though examples such as accessible cards, video banking and voice recognition technology show some of the possibilities.
- As older customers are more likely to be long term customers, understanding what good 'value for money' looks like to this group is likely to be beneficial across the customer base.
- Even for younger age groups, online services may need to be complemented by other channels. For example, the Social Market Foundation's report *Balancing Bricks and Clicks (2016)* found that even among digitally adept younger age groups there is a demand for face-to-face financial services, especially when more complex decisions are involved.

1.2 Understanding what a good market for financial services for older consumers looks like

As we learn more about our ageing population, how they currently interact with financial services and what good products and services look like for them we should also be better placed to understand what the financial services market would look like if it operated in the interests of older consumers.

For example, if we determine that switching will always be more difficult for older consumers (perhaps because of access to information, increased barriers to communicating with firms or tendency to loyalty) then how else can we drive a competitive marketplace? Is there more that can be done to make it easier for older consumers in particular to shop around? If not, then is there a need for greater protection for loyal customers? The FCA could usefully consider these questions in the context of particular markets, for example in the cash savings and home/car insurance markets.

An emerging issue in terms of what a good market looks like is the use of big data and price optimisation. If older consumers are less likely to shop around, their price elasticity of demand will be lower and they will be charged more by providers engaging in price optimisation. The outcome will not reflect consumer satisfaction but habit and lower levels of engagement with the Internet, with the most vulnerable customers being the worst affected.

Older customers are also more likely to be holding legacy products and may benefit from more focus on managing and disposing of products as well as the existing focus on acquisition. We very much welcome the FCA's recent report on closed-book insurers and would like to see this focus given to other legacy products, for example equity release products that were being sold 10 to 15 years ago, or guaranteed income products. Recent research on existing equity release customers shows that problems or design issues often take some time to emerge.[4]

The FCA should also consider carefully whether a duty of care or equivalent protection is necessary to ensure that the market operates in the interests of older consumers. There are powerful arguments for this duty as regards all consumers, but they become even more forceful when we think of consumers with capacity to make decisions but with some cognitive decline and increased barriers to information and communication. We recognise there may be other ways to achieve a similar aim, for example a renewed focus on the principle of treating customers fairly, however to date this principle does not appear to have been applied to protect consumers in the way envisaged by a duty of care.

1.3 Understanding where the market is unable to meet the needs of older consumers or particular groups of older consumers

Many of the issues we raise here have been known problems, discussed with firms and regulators for many years. While we hope that an increased understanding of the potential and the needs of an ageing population along with increased regulatory focus will improve outcomes for older consumers, we are aware that a competitive market may not be able to meet the needs of all consumers. One extremely helpful outcome from this work would be an increased understanding of gaps in the market and whether they require a social policy or other intervention.

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

Yes. Based on feedback we receive from correspondents, callers, local Age UKs, surveys, consultative groups and workshops, and our own analysis, the following issues have emerged as key areas of concern for older people.[5] These are not all within the remit of the FCA, however we have included broader issues where we feel they provide relevant context to issues that the FCA is in a position to address:

[4] Overton, Louise and Fox O'Mahony, Lorna (2015) The Future of the UK: Equity Release Market: Consumer Insights and Stakeholder Perspectives.

[5] See our report *Age-friendly banking – what it is and how to do it* (Age UK 2016) for a recent summary of older persons' experiences with financial services.

2.1 Pensions and savings

Getting the new pensions landscape right must be a key priority for all financial services stakeholders, given the challenges facing consumers in making the most of their resources in retirement. We are aware that this is already firmly on FCA's agenda, but Age UK's report, *Financial Resilience in Later Life (2014)* provides more detailed recommendations on issues around pensions and saving.

- The complexity of the 'pension freedoms' environment makes it very difficult for many consumers to choose the best option for meeting their needs.
- Continued shortcomings in the UK's overall private pension architecture, with minority demographic groups in particular less likely than average to have sufficient pension savings[6]
- The roll-out of automatic enrolment means that increasing numbers of disengaged DC savers will reach retirement over the coming years. Ensuring these people make good choices with their savings will be a challenge for the industry and government.
- The difficulty in getting cost-effective advice in relation to small and medium-sized pension pots.
- The take-up of Pension Wise face-to-face and telephone appointments has been low, with only about one in five people using the service prior to using their pension savings. Increasing the number of clients should be a priority in the short-term.
- Fees and charges on pension products are not transparent, with a range of different charges across different products making it very difficult for consumers to compare and contrast.
- The abolition of forced annuitisation has resulted in many people cashing in their pension savings and putting their savings instead into cash accounts, where savers are regularly defaulted to ultra-low interest rate accounts (sub 0.5% p.a.).[7]The FCA could usefully explore where this pension money is being invested, and whether the implications of long-term saving in cash are made clear.

2.2 Access to financial services

- Restrictions on mortgage lending by age which do not seem to relate to the capacity of some applicants to service mortgages.
- Bank branch network reduction proceeding at speed and in such a way that communities (like Glastonbury and Birchington-on-Sea) can lose all their branches over a short period of time, without suitable alternatives (including Post Office based alternatives) being yet fully developed.

[6] Pensions Policy Institute, *Who are the under-pensioned?* 2016.
[7] *Pensions freedoms: no more normal,* PLSA, January 2016.

2.3 Insurance

- Examples of excessive pricing creating access barriers continue to appear from time to time in the media. Implementation of the ABI/BIBA agreement on insurance and age has not yet been fully evaluated.
- Insurance companies raise prices for loyal customers (building and contents in particular), relying on inertia to prevent switching.
- Impact of 'big data' and price optimisation on older customers, an emerging issue of considerable concern.[8]

2.4 Age friendly banking

- Many systems and processes are not yet age friendly, eg design and placement of some ATMs, call centre and customer service practices, availability of face-to-face services.
- Third-party authorities and PoAs: customers report problems in recording and operating PoAs with banks. A broader range of third party options is needed to cover all third party assistance situations, including caring at a distance.

2.5 Fraud, scams and financial exploitation

- Pension scams remain an area of high concern
- Not enough yet done to stop scams in live time, even where banks suspect a given transaction arises from a scam or exploitation. This could include delayed transactions, either of suspicious/unusual/large transactions.
- Not enough yet done to weed scammers out of the banking system. Scammers set up reception accounts at different banks from their victims and use the faster payments system to steal large amounts of money, clearing the account before enquiries are made. The reception account is identified by sort code and account number only, therefore not alerting the customer to a possible problem.
- Approach to liability is inconsistent and sometimes inappropriately strict.
- Anti-scam information provided by banks is often placed in low-visibility locations. Marketing information is preferred for high-visibility locations (eg online banking login pages).
- Further, banks must treat victims better, beyond the issue of financial compensation. This should include referring people to sources of support – other bank teams, social care services, debt advice, counselling – and treating them with dignity and respect.
- While there is some good practice being developed, frontline staff should be better trained to spot possible scams and at-risk customers, and know how to act. This

[8] See, for example, http://www.cii.co.uk/media/6815363/tp122_minty_price_optimisation_7mar2016.pdf

should include clear escalation procedures, but also support for staff to make judgements without fear of ‘getting it wrong’.

2.6 Consumer vulnerability

- While the BBA, prompted by the FCA, has made a start on encouraging its members to adopt policies and practices to assist customers in vulnerable situations, much remains to be done to implement the BBA/FCA recommendations across the industry.

For further detail on the above areas of concern, see the following Age UK submissions, responses and reports:

Consultation Response – FCA cash savings market study report, Age UK, 13 Feb 2015.

Response to FCA scoping study of access to financial services, Age UK 17 April 2015

Consultation Response – Review of the Signposting Agreement on age and insurance between the Government and insurance industry, Age UK 3 July 2015

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?

3.1 FCA

We welcome the FCA’s collaborative and innovative approach to this programme and to other initiatives such as the vulnerable consumers and access work. We would support use of a wide range of tools and interventions such as:

- Continuing to act as a ‘thought leader’, as it has through the production of this discussion paper.
- Undertaking research to better understand the needs of the ageing population – we welcome the FCA’s work on refining ‘Spotlight’ and other research proposals.
- Setting out clear expectations for firms to show that they understand and are meeting the needs of older consumers e.g. how firms should be undertaking consumer research, mystery shopping and similar.
- Using Supervision Visits to ask firms how they ensure they understand the needs of older consumers and include them in the design process for new products.
- Investigating whether undue profits are arising in areas of potential concern e.g. customers who renew home and motor insurance without haggling or shopping around.
- Using its powers to encourage and recognise Codes of Practice that prioritise consumer benefit.

- Coordinating collaboration with other relevant regulators and stakeholders e.g. Information Commissioner on data sharing on scams, PRA on possible prudential issues with lending in later life.
- Ensuring that FCA staff, especially those working on issues with high impact on older consumers understand their needs so that the particular needs of older customers are mainstreamed across the FCA.
- Share learning on ageing populations with the Payment Systems Regulator and ensure it also age-proofs its regulatory approach.
- Setting objectives for improving outcomes for older consumers and reporting against them regularly or requiring firms to report against them.
- Using the regulatory sandbox and Project Innovate both to encourage solutions to specific existing problems in the market but also to act as an exemplar of inclusive design. For example, the work on improving communications with customers could have asked specific questions to encourage firms to consider how to communicate with those experiencing changes in cognitive processing and some visual impairments. Project Innovate could require firms to follow an inclusive design approach.
- Publicly highlighting issues to government or other regulators where the action lies outside the FCA remit. The annual Risk Outlook provides a possible tool and could include a section on risks to the industry's ability to meet the needs of consumers which are not within the powers of the FCA.

However we note that it is important that the FCA is able to sustain its focus on the issues it decides to take up and that it is prepared to follow up on commitments made and take steps to compel compliance where necessary. We are extremely enthusiastic about the vulnerable consumers work, and have already seen some positive results from this approach, however for it to have maximum benefit those engaged in delivering will need to be held to account and be aware that if they do not deliver the FCA will take further action.

3.2 Firms

Firms should:

- Improve research and design practices as discussed in our response to question 1.
- Pay particular attention to whether their communication channels (e.g. online/telephone services and written content) are age friendly.
- Review existing practices to ensure that they do not unjustly discriminate on the grounds of age. They should also ensure that they do not use age as an excuse with consumers e.g. telling consumers they will not lend to them because of their age, when in fact it is because they have assessed the mortgage is not affordable.
- Work together to the maximum extent possible under competition law to provide consistent user experience in areas such as identification and registration of

powers of attorney and to find solutions to whole of market problems such as branch banking and fraud.

3.3 Trade bodies

Trade bodies have an important role in play in supporting collaboration on the issues raised in this paper. For example the BBA has taken up work on vulnerability following the FCA's initiative and the BSA/CML have started work on addressing lending into and in retirement. However trade associations can face challenges in moving practice forward if they feel they need to bring the whole industry together which can result in standards being limited by the lowest common denominator. They may need to be held to account in delivering long-term change in a timely fashion.

Trade bodies may also be able to play a useful research or standard-setting role, commissioning research or developing standards in a cost efficient way where this would provide benefits across industry. We note however that not all types of research will be easy for a trade body to conduct impartially, especially if results could conflict with objectives to promote confidence in the industry.

Therefore trade body work may be most effective when aimed at an issue which requires collaboration and where the FCA, government or other impartial stakeholder is able to effectively follow up on delivery.

3.4 Government

All parts of Government could potentially have a role in ensuring good outcomes for older consumers of financial services, including the DCLG in relation to funding for housing and the Department of Health and local authorities in relation to funding for care. However, the Treasury and DWP will have particularly important roles. Particular areas include public financial guidance (including Pension Wise) and the ongoing FAMR work. However it is likely that the FCA's ageing population work will uncover issues which cannot be dealt with by regulation and require a social policy change. The government should ensure it has mechanisms in place to consider input from the FCA.

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

In dialogue with banks and building societies we have been able to identify a number of services and products that are moving in an age-friendly direction. These are presented in our report, *Age-friendly banking – what it is and how to do it (2016)*. As well as UK case studies, our report contains examples from the USA, particularly on methods of preventing financial exploitation.

The positive aspect of the report is that it shows that an age-friendly agenda is practicable. At their best, innovative services can simultaneously improve experience for all customer groups. For example, Case Study 11 (cheque imaging) highlights an example of digital technology working to assist both digital and non-digital customers. For the latter, cheques can be written and presented in the normal way, while the technology works invisibly from their point of view.

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

We do not assume that consumer protection and effective markets are incompatible. While we value innovation which meets real consumer need and improves outcomes we are wary of concepts which seek to 'balance innovation and consumer protection'. Rather, appropriate consumer protection should help to guide firms to ensure that competition operates in the interests of consumers.

Regulatory and other legal barriers are frequently cited as reasons why markets cannot develop solutions to improve outcomes for older consumers and we give examples of this below. However it is not always clear whether rules need to change or whether better understanding of the rules and the needs of older consumers might be sufficient. We would value the FCA taking a strong lead in publicly addressing issues which are described as regulatory barriers either by investigating whether rule change is necessary or clearly and publicly stating that the interpretation should not constitute a barrier.

We recognise that the barriers cited often involve more than one regulator (e.g. PRA, CMA or Information Commissioner may also be involved). It would be extremely helpful if FCA would take a lead in coordinating responses, especially to the more serious issues. One example of where the FCA has sought to do this already is through engaging with firms and the Information Commissioner to clarify when firms can disclose safeguarding concerns.

- **Mortgage lending**: there is a possibility that prudential requirements may get in the way of appropriate lending to older people. Prudential requirements should be proportionate to real risks, but not place undue barriers on lending to people in retirement. The BSA in particular is working on ways of making more lending flexibly and safely available to people in retirement and we support this process.

- **Competition rules**: these are frequently cited as preventing banks from adopting shared solutions to customer needs, eg in relation to branch network reductions and efforts by banks to catch criminals using the banking and payments systems to carry out scams, fraud and financial exploitation. They are also cited as reasons why common standards on customer experience cannot be discussed e.g. around power of attorney. It would be helpful if the FCA could create a space in which some of these issues could be explored and if competition rules are creating real barriers to cooperation in the interests of consumers whether there are any available solutions either through rule changes or other approaches.

- **Financial advice**: since RDR some firms and advisers have claimed that rules make it too costly for them to provide a market which works well for consumers. FAMR has made some proposals intended to make advice more affordable. While we support the intention to facilitate affordable advice models we remain of the view that no advice is better than bad advice and that it will not be in the interests of older consumers if access to advice is increased but consumer protection and trust in advisers decreases.

- **Disclosure and risk warnings in the pensions area**: we think constant iteration, based on improved knowledge of consumer behaviour, is necessary to improve product disclosure over time. Age UK is currently developing a programme looking at behaviour change in older age groups.

(end)