MONEY ADVICE TRUST

BUSINESS DEBTLINE NATIONAL DEBTLINE WISER ADVISER

Consultation response: FCA Intergenerational Differences Discussion paper

Response by the Money Advice Trust

Date: July 2019

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Introduction

About the Money Advice Trust

The Money Advice Trust is a charity founded in 1991 to help people across the UK tackle their debts and manage their money with confidence.

The Trust's main activities are giving advice, supporting advisers and improving the UK's money and debt environment.

In 2018, our National Debtline and Business Debtline advisers provided help to more than 204,000 people by phone and webchat, with 1.7 million visits to our advice websites.

In addition to these frontline services, our Wiseradviser service provides training to free-to-client advice organisations across the UK and in 2018 we delivered this free training to over 820 organisations. Furthermore, Money Advice Trust Training and Consultancy services have worked with over 224 commercial organisations to identify and support their customers in vulnerable circumstances.

We use the intelligence and insight gained from these activities to improve the UK's money and debt environment by contributing to policy developments and public debate around these issues.

Public disclosure

Please note that we consent to public disclosure of this response.

Introductory comment

We welcome the opportunity to contribute to the FCA discussion paper on intergenerational differences. It is clearly a hugely important topic for all of us to consider and to participate in the debate. It is also vital that we all work together across the generations, and that the generations are not set against each other.

Responses to individual 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?

The paper has set out a comprehensive set of changes in consumer needs of different generations. While we appreciate the boundaries of the FCA's remit, we would suggest that one factor missing from the analysis is the impact of ten years of welfare reforms on different generations. These changes include the freeze to most working-age benefit rates that has been in place since April 2015, and the abolition of extra support for third and subsequent children.

Reductions in benefits such as Housing Benefit for people under 35, the under-occupancy charge, the benefit cap, and local housing allowance reductions, substantially affect working age and younger people and their ability to pay rent. People over pension age have generally been protected from the impact of welfare benefit changes. Lower incomes will affect the consumer's ability to pay for essential household bills, let alone put money aside to save for the future.

The prolonged squeeze on the finances of some households has also led to greater numbers of people reporting that their spending is higher than their income. In 2018, 48% of people calling National Debtline for support had a deficit budget, a significant rise compared to 27% in 2009. The debt advice sector as a whole has reported an increase in the number of people in this situation seeking advice.[1]

We would also point out that local council tax support changes from 2013 In England only apply to working age people. In many local authority schemes, working age people who qualify for council tax support are required to pay a percentage of their council tax, regardless of their income or ability to pay. Anyone over pension age who is eligible for council tax support will receive this in full. In some local authority areas the requirement to pay can be as much as 50% of the household's council tax bill.[2]

"A fifth of councils have no minimum payment, and another fifth have minimum payments of over 20%, with the highest being 50% in North Lincolnshire."

As examined in our 'Decade in debt' report, at National Debtline we have seen a greater proportion of people aged 18-24 calling for help, nearly doubling from 8% in 2008, to 15% of callers in 2018.

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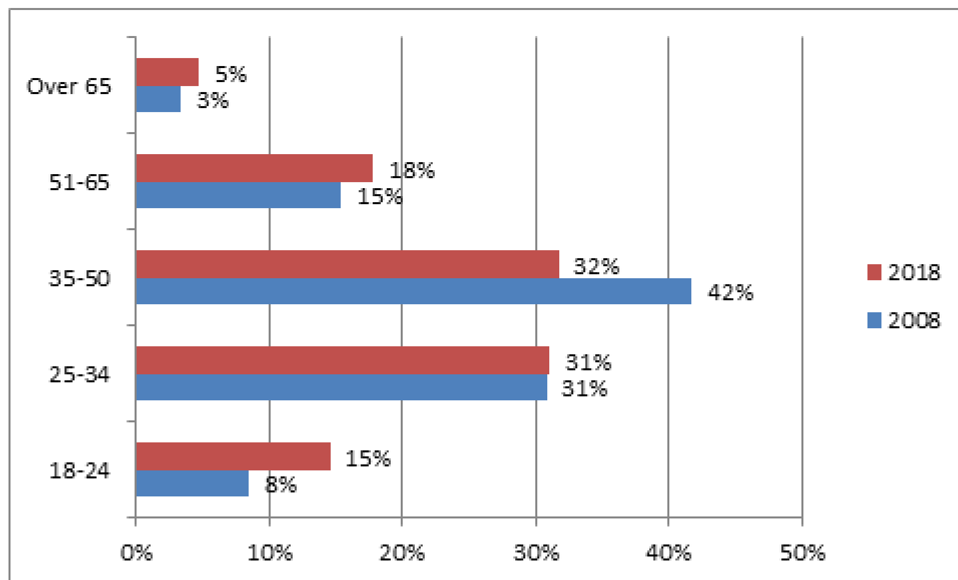
[1] A Decade in debt http://www.moneyadvicetrust.org/researchpolicy/research/Documents/Money%20Advice%20Trust,%20A%20decade%20in%20debt,%20September%202018.pdf
[2] https://www.ifs.org.uk/publications/13827

Age profile of National Debtline callers 2008-2018



Despite this rise, we know that the proportion of young people seeking advice is too low, with 20% of 18-24 year olds estimated to be indebted, rising to over 24% for 25-34 year olds[3]

At the same time a smaller proportion of 36-50 year olds contact us now compared to 10 years ago – 32% of callers in 2018 down from 42% in 2008 – and we are seeing a rise in the proportion of over 50 year olds calling the service, suggesting that financial concerns continue to affect all generations.

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?

The paper identifies house prices and real earnings as a factor in driving changes to how individuals build up and access wealth. We would expect this element to include the impact of the lack of social housing and the rise in private sector rent levels on younger peoples' ability to build up wealth. The levels of private sector rents in comparison to substantially lower rent levels in social housing tenancies will inevitably mean that people will be unable to save for the future. Effectively private sector tenants will be helping private landlords to substantially build up their own wealth and property equity, at the expense of building their own wealth through property purchase. Furthermore, the public purse is affected by the ever higher housing benefit bill to subsidize private rent payments. Rent payments to private landlords do not go back into social landlord house building programmes.

It is also the case that continuing to pay high rents into old age will mean substantial resources being used to pay that rent, either through a subsidy through housing benefit for those on pension incomes, or a big increase in pension income that is used solely to pay high private sector rents.
Whilst solving the wider political problem of lack of access to social housing is clearly beyond the remit of the FCA, it needs to be identified as part of the reason behind an inability to save for house deposits and so on.

3 Money Advice Service, A picture of over indebtedness, March 2016

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?

The point is often made that financial services should adopt universal principles on design of products and services that are designed around the needs of vulnerable consumers of all age groups rather than a mythical "ideal" consumer. Design built around vulnerable consumers will produce products and services that are easy to use for all consumers. The continued impact of digital exclusion, particular for older groups of consumers, needs to be factored in. The FCA occasional paper on the aging population and financial services[4] reported:

"A significant minority of consumers are digitally excluded from accessing financial services. For some, this is due to low levels of capability or confidence using new forms of technology, whilst others lack internet provision. This is particularly prevalent amongst the older old. There is risk of some consumers being left behind due to the speed and nature of innovation as well as a reduction in 'traditional' channels, such as bank branch closures."

Developing products and services that are only suitable for groups of consumers who are able to interact digitally will result in a significant section of society being excluded. The paper goes on to say:

"Firms could consider how they might need to adapt their products or services to meet the challenges and changes that older people face. Taking steps to make sure that financial services work well for older consumers will also likely benefit anyone whose circumstances change unexpectedly."

Having said this, we would like to see more developments in both innovative products and take-up in the world of open banking. There are many financial and savings apps that have started to become available and there is a push for such apps to work for the social good. For example, the Nationwide Building Society initiative "open banking for good"[5] seeks to *"use open banking technology in new ways to help the UK's 'financially squeezed".* In addition, there is the newly announced "open up challenge" prize fund from Nesta and Open Banking Ltd *"to support and reward game-changing products and services that could lead the breakthrough in consumer adoption of open banking".*

There are clearly financial providers who are taking the opportunity to become more innovative to suit changing consumer needs. These may not be designed to meet the needs of different age groups specifically. However, innovative products or services might have specific application to particular age groups who are particularly likely to be exposed to particular issues. As an example, older people may be more likely to be subject to financial scams, and there are financial services providers providing voluntary blocks on gambling transactions.[6] Other firms are developing products to allow people to "smooth" their wages and receive payments at any time during the month in exchange for a small fee.[7]

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[4] https://www.fca.org.uk/publication/occasional-papers/occasional-paper-31.pdf
[5] https://www.openbankingforgood.co.uk/
[6] According to the Commission's official health survey rates, 0.7% of respondents were classified as problem gamblers (gamblers who gamble with negative consequences and a possible loss of control). Men are more likely to be classified as problem gamblers with 1.2% of men classified as such compared to 0.2% of women. In terms of age, those aged 25 to 34 are most likely to be classified as problem gamblers (1.3%). https://www.gamblingcommission.gov.uk/PDF/survey-data/Gambling-participation-in-2018-behaviour-awareness-and-attitudes.pdf
[7] https://wagestream.co.uk/

We are very pleased to see innovation in savings products, such as Help to Save accounts.[8] However, the eligibility criteria for Help to Save accounts are limited to those in receipt of Working Tax Credits or certain amounts of Universal Credit. This is less likely to be applicable to young people and specifically excludes older people. The work of NEST looking a pension side-car savings,[9] and ideas about employment savings through payroll deductions are extremely encouraging. However, again, these are limited to a demographic in employment.

We note the announcement of a government backed prize-linked savings scheme pilot for credit unions.[10] This aims to help members to increase their financial resilience against financial shocks and boost credit union membership. Other measures to limit financial exclusion could include making changes to how credit ratings work to ensure that consumers' financial profiles include more innovative ways of reflecting their household finances. This could include automatic enrolment on the electoral register, credit scores reflecting household bill payment and so on.

However, despite innovations, there are intransigent problems with banking which particularly affect older age groups who are more likely to digitally excluded and affected by bank branch closures. Although major high street banks are signed up to the Access to Banking Standard, which commits them to work with customers to minimise the impact of branch closures, there is much debate about whether this goes far enough.

The Treasury Committee Report on Consumers' Access to Financial Services[11] came out on 13 May 2019 and made a number of recommendations, including:

- ✓ "It is up to the industry to determine how best to maintain face-to-face banking, but options such as a greater expansion of mobile bank branches; sharing bank branch facilities with other banks, shops or community buildings; or pooling staff of different banks within one premises should all be considered. The Committee has not seen compelling evidence that competition law would prevent banks from sharing facilities. In its response to this report, the Government should set out whether this is the case. If it is the case, the Government should make changes to competition law to allow banks to share facilities in order to maintain a sustainable branch network. If the financial services market is unwilling to innovate to halt the closure of bank branches, market intervention by Government or the FCA may be necessary to force banks to provide a physical network for consumers."

- ✓ "Efforts to maintain a bank branch presence on the high street should begin prior to the last branch in town announcing its departure. By the time the last branch in a community is announcing its closure, the process to retain a physical presence in a community may often be too late."

- ✓ "Despite its best efforts, the Post Office is not the optimum environment for consumers, particularly the vulnerable, to carry out their banking requirements for a number of reasons."

- ✓ "Many small towns and rural areas have seen bank branches close, leaving them with no high street banking services. The bank branches were closed in the knowledge that the Post Office would not be able to provide some key services. In these "last bank" cases, the banks should be required to make provision for "banking hubs" within the local Post Office. The "hub" should be properly funded, with an agreed private and business banking provision set by the Department for Business, Energy, and Industrial Strategy (BEIS) and the Treasury. Postmasters must be trained, equipped and compensated to make the hubs viable. BEIS should make an immediate assessment of what the banking provision should be, the indicative cost per hub, and propose how the banks should fund it."

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[8] https://www.gov.uk/get-help-savings-low-income
[9] http://www.nestinsight.org.uk/early-access-to-pension-savings/
[10] https://www.abcul.coop/blogs/patrick-thorpe/2019/07/04/government-announce-abcul-credit-unions-participat?CommunityKey=78264557-dc93-4814-80f2-be56c38c9336&tab
[11] https://www.parliament.uk/business/committees/committees-a-z/commons-select/treasury-committee/inquiries1/parliament-2017/consumers-access-to-financial-services-17-19/

There is clearly an issue relating to the closure of free ATMs which is likely to affect different age groups in particular ways. Older people may be more isolated and unable to travel to find a free ATM or be unable to use online banking for transactions. Particular groups may be more likely to favour the use of cash. We understand that the Payment Systems Regulator is considering how the changes to interchange rates made by LINK are impacting upon ATM provision.

We responded to the Access to cash review which published its report in March 2019.[12] The review's action plan to protect cash access called for the following.

- ✓ Government and regulators to step in urgently to ensure cash remains viable.
- ✓ A "Guarantee to Cash Access" for all, including those in remote and rural areas.
- ✓ Those providing essential services to be required to allow consumers to pay by cash.
- ✓ A more efficient, effective and resilient wholesale cash infrastructure to ensure that cash remains viable as its use declines.

The government says in its response to the "Cash and digital payments" call for evidence that it is "*committed to supporting digital payments and safeguarding access to cash for those who need it*".[13] It remains to be seen whether the proposals will be taken up by the Joint Authorities Cash Strategy Group which has been set up by HM Treasury to look at the cash infrastructure. It is clearly vital to protect access to free cash for the eight million UK adults who would *"struggle to cope in a cashless society"*,[14] according to the report.

The HM Treasury Consumer Access to financial services report referenced FCA research estimating that 1.3 million UK adults are unbanked. We agree that there are too many restrictions on opening a basic bank account. The BBA (UK Finance) vulnerability taskforce[15] concluded that:

"*the industry, regulators and law enforcement agencies should work together to find additional identification options for vulnerable people"*.

However, there still appears to be major problems with standardising the requirements for proof of identity across industry still.

We agree with the conclusions in the HM Treasury report which are set out below.

- ✓ "Basic bank accounts should be accessible to all consumers regardless of whether they are eligible for another bank account or not. To that end, the Committee recommends that all basic bank account providers should relax their opening restrictions on these accounts immediately, and recommend the FCA mandate banks to do so."

- ✓ "All financial services providers who provide current accounts should act immediately to ensure that staff are trained to direct consumers who are rejected for a traditional current account towards a basic bank account, even if this would be with another provider."

- ✓ "The Committee recommends that the FCA requires financial services providers to report how many basic current account openings they have rejected and the reason why. This information should be published bi-annually to increase transparency and oversight."

- ✓ "The Committee recommends that the Treasury and the FCA consult on bringing in a standardised list of identification papers that are acceptable as identification for a basic bank

[12] https://www.accesstocash.org.uk/media/1087/final-report-final-web.pdf
[13] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/799548/CfE_-_Cash___Digital_Payments_Response_020519_vf_digicomms.pdf
[14] https://www.theguardian.com/money/2019/mar/06/uk-cash-system-on-the-verge-of-collapse-report-finds
[15] https://www.bba.org.uk/news/press-releases/financial-services-establishes-new-gold-standard-for-customers-in-vulnerable-circumstances/#.XSNd2E3ruUk

account and that financial services providers should accept as many forms of identification as possible, and think creatively about more forms of identification that could be accepted."

The Citizens Advice super-complaint about the loyalty penalty[16] demonstrated that:

"Older, lower income and less educated consumers are more likely to face the loyalty penalty."

This is a clear exposition of how markets and financial services providers are failing to provide products and services that work well across age groups.

This has now been established as a major issue, particularly in the areas of essential services such as energy, cash savings, unfair pricing in the home insurance market, the mortgage market, mobile phone contracts telecoms and broadband. The resulting Competitions and Market Authority investigation is on-going and HM Treasury Select Committee consumers' access to financial services report has called on the FCA to make it mandatory for firms to publish the size of their loyalty penalties to consumers. We are awaiting an update on the CMA's progress to see what practical reforms will be put in place.[17] We hope that this will be carried out with a sense of appropriate urgency given the scale of the problems identified.

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.

There are likely to be many barriers to developing new financial products identified by different sectors within financial services.

We would certainly see there being regulatory barriers in place that affect the development of holistic advice, guidance and information across all sectors. It is difficult to assess what the regulatory barriers might be in practice, but a perception of such barriers might mean firms are less likely to be innovative. For example, there have been discussions about setting up a network of advice "one-stop shops" either digitally or face to face. These would enable people at particular life stages to get a financial "MOT" across their financial needs, be that pensions, savings, insurance, debt and credit, asset realisation, or equity release, and so on. Firms are understandably cautious about straying beyond their regulatory boundary and the limit of what their FCA authorisation allows them to do. In our sector, this affects our ability to give any guidance on savings products in case we are seen as recommending a particular financial product. We must not give pensions advice, and pension advisers cannot provide debt advice. This leads to a difficult advice journey for our clients.

The boundary between information, advice and guidance has also become an area fraught with difficulty for firms to interpret. Perhaps we need to move to a situation where general guidance can be given more freely, with caveats on accuracy and where it comes to recommending individual named products or action. Perhaps this is a role which employers could perform, or where the Money & Pensions Service could help support employers to do so.

We can see a need for more flexible and innovative financial products across the generations, where a mortgage might be needed to buy a house, for release equity for retirement, or social care or to

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[16] https://www.citizensadvice.org.uk/about-us/policy/policy-research-topics/consumer-policy-research/consumer-policy-research/the-cost-of-loyalty-exploring-how-long-standing-customers-pay-more-for-essential-services/
[17] https://www.gov.uk/cma-cases/loyalty-penalty-super-complaint

help support young people to get on to the housing ladder. However, many mortgages are inflexible, and equity release products do not have a good reputation for cost and the resulting loss of equity to pass on to future generations is hard for families to contemplate. Has mortgage regulation meant that opportunities to borrow at higher loan-to-value rates have been lost for younger people?

The so called "mortgage prisoners" will fit a specific age profile as they consist people who took out their mortgage borrowers before 2009, who have become trapped into higher rate mortgages since the financial crash and the lending rules became much stricter. We have responded to the FCA consultation which proposes to change the responsible lending rules and guidance for eligible existing mortgage customers to help the situation facing borrowers trapped on higher-rate mortgages. Whilst we appreciate the FCA's intention is that mortgage customers who have previously been unable to switch mortgages despite being up-to-date with their payments could be able to find a cheaper deal. However, these proposals do not go far enough.

There is controversy still because some "mortgage prisoners" have had their mortgages sold to non-active lenders e.g. USA collections firms. The new APPG on mortgage prisoners is asking government to stop selling NRAM loans to such companies.[18] They do not give mortgages so cannot transfer people to cheaper products. There are also queries about their collection techniques. These rule changes need to be put in place as swiftly as possible, so that the harm being suffered by this group of mortgage borrowers is alleviated.

There are limits to how far the FCA can change the rules without government action to help.UK Finance have stated:

"It's now for the government to work with the FCA on full regulatory protections and fair treatment for the many thousands of customers with inactive lenders or unregulated owners, who we in the regulated industry, would still be unable to help."[19]

We believe that the FCA should set out how it will address perimeter issues in the future. We do not see the FCA giving these areas sufficient priority in the areas which affect vulnerable consumers in debt. Where the FCA is less strong is in the approach to matters that arise on the perimeter of the FCA's authorisation or sit outside the FCA's sole remit. This is where we believe some of the most harm is being caused in relation to people in vulnerable circumstances.

As, we have said in our response to the associated FCA mission papers, alongside other consumer groups we have repeatedly raised our concerns about a range of issues such as:

- ✓ the activities of unauthorised private enforcement agents and debt collection agents collecting unauthorised and authorised debts;
- ✓ potential consumer detriment from search engine advertising by lead introducers masquerading as debt advice charities;
- ✓ lead introduction companies or insolvency practitioners giving unauthorised debt advice which lead to potentially unsuitable debt options such as an IVA instead of a debt relief order;
- ✓ the impact of the regulatory gap on insolvency practitioner and lead introducer authorisations regulation and supervision that lies between the FCA and the Insolvency Service.

We would like the FCA to look beyond its regulatory boundaries to consider the detriment caused by unregulated activities, and to be prepared to formally request to HMT that its scope be expanded where this would help protect the consumer. In particular, we have identified the work of private enforcement agents in particular as an area of consumer detriment that would benefit from enhanced regulation, along with that of lead generators for debt and debt advice carried out by insolvency practitioners should be regulated activities.

[18] https://www.ftadviser.com/mortgages/2019/04/29/mortgage-prisoners-put-pressure-on-fca-and-treasury/
[19] https://www.ftadviser.com/mortgages/2019/04/15/trade-body-calls-for-government-action-on-mortgage-prisoners/

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?

We will not rehearse again the arguments in the debate about a duty of care at this point. We participated in the FCA consultation on a duty of care[20] and welcome the feedback statement[21] that focuses the FCA on reviewing the regulatory framework, and exploring whether new or revised principles will strengthen and clarify firms' duties to consumers. We note that the FCA is committed to publishing a further paper in Autumn 2019 which will set out specific options for change.

We believe the FCA should take prompt action to put a new framework in place as this would go some way to answering the question of what the FCA can do to encourage and enable positive innovation and competition *in the interests of consumers*.

We of course continue to value the work that the FCA does to encourage innovation through the development of its regulatory sandbox which allows firms to pilot and test innovative financial products.

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?

We have listed some examples where market or firm behaviours may cause potential harm to consumers in different age groups. This is not intended to be an exhaustive list.

- ✓ In our report "Borrowed Years"[22] we identified life-events as an opportunity for industry to recognise the varying needs of different age groups. This included support for first-time borrowers seeking credit for the first time.
    - *"Credit providers should consider how behavioural insights could be used to develop a timely intervention to improve the financial capability of young first-time borrowers.*
    - *This could include the use of a tailored online/offline resource from a trusted partner, to which young people are signposted at critical points – such as*

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[20] http://www.moneyadvicetrust.org/SiteCollectionDocuments/Policy%20consultation%20responses/Unilateral%20responses/Money%20Advice%20Trust%20response%20to%20the%20FCA%20Discussion%20paper%20on%20a%20duty%20of%20care.pdf

[21] https://www.fca.org.uk/news/press-releases/financial-conduct-authority-publishes-feedback-statement-duty-of-care

[22] http://www.moneyadvicetrust.org/SiteCollectionDocuments/Research%20and%20reports/Borrowed%20Years,%20Young%20people%20credit%20and%20debt,%20Aug%202016.pdf

during the application process, on delivery of a credit card or in the event that they miss their first payment.

- *Such an intervention should focus specifically on credit and borrowing – covering issues such as the importance of repayments, how borrowing affects your credit rating and sources of free advice if you fall into difficulty."*

✓ There are still barriers to opening a bank account in relation to providing acceptable proof of identity, and these can be difficult to overcome for young people in particular. There is still not a cross-industry standard for ID verification in place. There needs to be an exception process for people who do not possess standard identification documents.

✓ We also identified employers as a source of support for new first-time workers to help manage their money through saving payroll deduction schemes, links to help to buy ISAs, links with credit unions, alongside pension auto-enrolment. There is a great opportunity to develop side-car savings through the NEST pilot. This is a hybrid savings product that combines a liquid 'emergency' savings account with a traditional defined contribution pension.[23]

✓ There has been much concern over the difficulties faced by consumers at the end of interest-only mortgages, with no repayment vehicle, who are unable to switch to another mortgage product due their age. We believe that the default position lenders should take is to be flexible and extend loans into retirement, allow people to stay in their homes, and to pay new loans back over extended periods. The FCA has made changes to remove regulatory barriers to mortgage lending for older consumers to be offered new interest-only mortgage products where they can demonstrate they can afford ongoing payments. Repayment of capital might be on death or sale of the property. This is a substantial step forward, offering alternative ways for older consumer to access any equity in their homes. It remains to be seen if the market will develop to ensure that forced sales at the end of a mortgage term become a thing of the past.

✓ Without access to traditional mortgages, older people may be forced into the alternative market of equity release. For many, their home will be their most valuable asset, yet trying to release cash from it is fraught with difficulty. While most equity release schemes are classified as mortgages, their terms and conditions are wholly different from more traditional and familiar products, with much higher charges and interest rates prevalent and a high cost associated with interest-roll up.

✓ The existence and effects of the "loyalty penalty" has been well documented.[24] Older people may be less likely to shop around using online market comparison tools. This issue appears to disproportionately affect older people (who may be longer-standing customers) who expect their provider to treat them fairly in return for their loyalty. This is clearly not the case where the loyalty penalty has been identified in relation to many types of insurance.

✓ We believe that innovation in products and a requirement to provide low-cost simple insurance products for some excluded sectors such as older people would be a way forward. Travel insurance regularly includes an upper age limit, and premiums are higher the older you are. It is not clear that this reflects the costs of providing such services accurately. Should the insurance sector be allowed to effectively discriminate against older people on the basis of age where providing insurance services? We are not convinced that the current FCA remedy for discriminatory pricing goes far enough. The Treasury Select Committee Access to Financial Services Report reports concerns that a remedy of access to specialist insurance providers will not tackle what they see as discrimination under the Equality Act.[25]

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[23] http://www.nestinsight.org.uk/sidecar-savings-trial/

[24] https://www.citizensadvice.org.uk/about-us/our-campaigns/all-our-current-campaigns/citizens-advice-super-complaint-on-the-loyalty-penalty/

[25] https://www.parliament.uk/business/committees/committees-a-z/commons-select/treasury-committee/news-parliament-2017/consumers-access-to-financial-services-government-response-17-19/

- ✓ The impact of the 2015 pension freedoms continue. We have concerns about the potential risks that those in debt might face in retirement when it comes to their pension. For example, there are real risks that people in debt may feel under pressure, either directly or inadvertently, from creditors to withdraw some of their lump sum to pay down their debts. We are concerned that more older people may find themselves in debt as a result of having drawn on their retirement savings earlier in life and no longer have the ability to support themselves.

- ✓ There has been much work done on pension transfer charges caps on early exit penalties and maximum account fees, but we are concerned that these may not be sufficient. It must be as simple and straightforward as possible to transfer pensions from one scheme to another. The FCA has taken action on the charges that apply and information given when choosing an annuity or pension drawdown,[26] but again we question whether the remedies will go far enough to help consumers make good choices in such a complex area.

- ✓ The FCA has concluded that in most cases a transfer from a Direct Benefit pension scheme is not suitable. However, there is clearly further work to be done as the FCA survey of financial advisers found *“firms are recommending that large numbers of consumers transfer out of their defined benefit pension schemes despite the FCA’s stance that transfers are likely to be unsuitable for most clients”*.[27]

- ✓ Even the most financially capable people can struggle to understand the benefits and risks of different product choices and make informed decisions about retirement planning. Pension language and jargon make the market difficult for people to navigate. Scheme rules are so complex that it is impossible for most people to make an informed decision. We would expect the FCA to take further action to prevent firms from misleading consumers into giving up valuable direct benefit pension schemes in particular.

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?

We have identified the following issues that have a potential intergenerational aspect where we believe the FCA could play a role. We have not attempted to put together a comprehensive list as some themes will be outside our area of expertise.

- ✓ The FCA has recognised in its work on high-cost short-term credit that there is a broader public interest working with government and other stakeholders to look at alternatives to high-cost credit.[28] We believe the FCA should continue this work in conjunction with HM Treasury, Fair4All Finance and the Financial Inclusion Commission. As an example, the possibility of a no interest loans scheme being piloted is very welcome.

- ✓ The decision to make financial education compulsory in schools was widely welcomed. However, it appears that despite the changes to the national curriculum in 2014, financial education is not being provided in a consistent manner across secondary schools. It is also not compulsory for academies or free schools to follow the national curriculum at all. The Young Money report suggests that education about money has stalled.[29]

[26] https://www.fca.org.uk/publications/market-studies/retirement-outcomes-review
[27] https://www.fca.org.uk/news/press-releases/fca-announces-further-action-defined-benefit-transfers
[28] https://www.fca.org.uk/publication/consultation/cp18-12.pdf
[29] https://www.theguardian.com/money/2017/nov/11/schools-ignore-personal-finance-lessons-fail-generation-debt

- Student finance is a difficult issue. However, a straightforward idea has been put forward by MoneySavingExpert.com alongside the Russell Group of universities to amend the current student loan statement to help graduates understand the student loan system.[30] The FCA could have an input into how student loan statements should be put together drawing on its experience of consumer credit and behavioural insights.

- Other aspects of student finance that we have highlighted in the past in our "Borrowed Years" report.[31] This includes the idea that student loans should be paid in monthly instalments rather than every term, to help with budgeting and to help prepare students for monthly money management after graduation.

- The wider financial impacts of welfare reform policies which may increase financial exclusion amongst specific groups and impact differently across different generations.

- There may well be a financial impact on older people once the over 75s are required by TV Licensing to pay their TV licence. There is evidence that Pension Credit is massively under-claimed so there will need to be a substantial programme to encourage take-up of Pension Credit to expand eligibility for free licences. For those who do not claim or are not eligible, there could be a rise in poverty and financial and social exclusion amongst the over 75s who are unable to pay for a licence and no longer watch television or who are fined for non-payment. Innovative ways to pay for a licence are required. This might be an area where FCA expertise could be valuable.

- We have been concerned about the impact on a largely older group of consumers who are eligible for Support for Mortgage Interest loans (SMI) from the DWP to help pay for their mortgages. There has been extremely poor take up of these loans since they came into being in April 2018. We have raised our concerns with the FCA as to how regulated mortgage firms are monitoring the impact of the SMI scheme on their borrowers, who are likely to be both older and in more vulnerable circumstances. We are concerned that some people will attempt to pay their mortgages without the support of SMI and fall into arrears. We believe that mortgage lenders should build in greater levels of forbearance for their borrowers in this situation.

- The poverty premium has been referenced in a range of research papers.[32] Although it is not an issue that exclusively affects older people, it should be taken into account as many of the issues identified, will disproportionately affect older people.

- Digital exclusion disproportionately affects older people. The financial effects include cheaper deals if you pay by direct debit, particularly for fuel and phone tariffs, better interest rates for online savings accounts, and extra charges for paper versions of bills, particularly by telephone suppliers.

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[30] https://www.moneysavingexpert.com/news/2019/05/moneysavingexpert-calls-for-misleading-student-loan-statements-t/

[31] http://www.moneyadvicetrust.org/SiteCollectionDocuments/Research%20and%20reports/Borrowed%20Years%2C%20Young%20people%20credit%20and%20debt%2C%20Aug%202016.pdf

[32] http://www.bristol.ac.uk/geography/research/pfrc/themes/finexc/poverty-premium/

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