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Ageing Population and Financial Services

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We also invite firms and individuals to contact us if they wish to discuss the issues raised in this paper. To request a meeting, please email APOccasionalpaper@fca.org.uk by 21 November 2017 for the attention of Victoria McLoughlin.

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Foreword

It's well established that the UK population is on average getting older. It is plausible that one in three babies born today can expect to celebrate their 100th birthday. While one in six of the UK population is currently aged 65 and over, by 2050 one in four will be.

This changing demographic will have ramifications for public policy. We launched the Ageing Population Project in February 2016 to start exploring how this impacts financial services in particular.

This Paper is intended to provide an overview of who older consumers are, how they make decisions, what products and services they need and whether they are able to access them. While older consumers of course have diverse needs and preferences and there is no 'one size fits all' solution, what we have found is that there are some particular issues and access barriers that are more relevant for older consumers, particularly the 'older old'.

From the outset, the aim of the Ageing Population Project was to work collaboratively with others to help bring about positive change. And we've been encouraged by the positive and innovative approach many firms are taking to addressing the challenges and opportunities that come with an ageing population. I'd like to take this opportunity to thank the firms, industry and consumer groups and not for profit bodies who met with us over the course of the last 18 months and who provided us with valuable insights and examples of how financial services could better support and meet the needs of older consumers.

Responding to the changing demographic is a public policy challenge that requires action from multiple parties to make sure we get it right. By bringing together our commissioned research, case studies and examples of best practice, we hope that the package of materials under the Ageing Population Project will drive further positive innovation in the interests of older consumers.

Linda Woodall

While older consumers of course have diverse needs and preferences and there's no 'one size fits all' solution, what we have found is that there are some particular issues and access barriers that are more relevant for older consumers, particularly the 'older old'.

Executive Summary

This Occasional Paper sets out the key findings and outcomes from the Ageing Population Project and our strategy for mitigating the potential harm arising. It is intended to:

- help firms to identify and understand the specific needs, characteristics and preferences of older consumers
- encourage sustainable change by helping to create an environment that delivers good outcomes for older consumers. This could be through firm, regulator and consumer actions (recognising the extent to which this is realistic, particularly for those who are vulnerable)[1]
- challenge financial exclusion
- ensure firms proactively recognise the potential vulnerabilities associated with older consumers and act with appropriate levels of care
- encourage firms to consider the issues posed by demographic change, and take steps to mitigate potential risks or harm

There are risks that older consumers' financial services needs are not being fully met, resulting in exclusion, poor customer outcomes and potential harm.

Consumer groups highlighted examples of poor customer service and potential access barriers in a number of retail sectors.

The issues appear to be driven by a range of interrelated root causes. These include policies and controls that are not designed around consumer needs and unintended consequences of retail product and service design.

> By older consumers, we refer to people aged 55+ (as the earliest age at which a defined contribution pension can be drawn), with a predominant focus on 65+ and 75+.

While older consumers are not necessarily vulnerable, they are more likely than other groups to experience transient or permanent vulnerability. This is particularly the case for the 'older old'[2] who represent the fastest growing segment of the UK population overall.[3] This could be due to:

- health (physical or mental issues affecting day-to-day activity)

1 The FCA Mission set out our intention to publish a Discussion Paper on a Duty of Care. Further work is anticipated as part of the forthcoming Handbook Review,. FCA Mission (2017) p 26: https://fca.org.uk/publication/corporate/our-mission-2017.pdf

2 Commentators use the term 'older old' to encompass different age brackets. For the purposes of this paper, we use the term 'older old' to mean those aged 75 years and over.

3 Over-85s are UK's fastest growing age group, Brooks (2013): http://ageuk.org.uk/latest-news/archive/over-85s-are-uks-fastest-growing-age-group/

- resilience (at risk of increased harm from financial shocks)
- capability (low financial knowledge or confidence)
- life events (bereavement, relationship breakdown or loss of income)

Many of these issues are not restricted to older consumers. As such, the findings from the Ageing Population Project should benefit a wide range of users of financial services.

Furthermore, many of the issues cut across society, government, regulation and the financial services market. In line with our Mission, we have focussed on the issues where we believe regulation and financial services firms can play a role and make a difference.

Generalised approaches to dealing with older consumers may stereotype, patronise or offend. This can be challenging for firms operating at scale. It is vital that firms are given flexibility to use their own judgement.

A number of firms and trade bodies are already starting to identify and tackle challenges associated with an ageing customer base.

Key findings and ideas to consider

There is scope for financial services firms to do more. We have set out some ideas that we want firms to consider as part of how they Treat Customers Fairly. These are diverse challenges that firms need to address in ways that fit their business models. As such, we are not proposing rules or guidance at this stage. However, we may return to this and consult on changes to our rules or guidance in the future if we think this is needed.

These ideas can be considered under three broad headings:

Product and service design

All too often, products and services appear designed for an 'average' consumer who may not exist. Alternatively, processes and policies are not designed around customer, but corporate need - for example operational convenience or mitigation of perceived regulatory risk or there are instances where frontline staff don't know about or follow head office policies. Too few products anticipate the needs of an ageing population.

With this in mind, firms could:

- understand and anticipate the current (and future) needs and circumstances of older customers in their target markets
- take older customers' needs into account when developing distribution channels, and customer support for older consumers, or other vulnerable groups
- involve older and vulnerable consumers in testing and product design at proof of concept stages

Customer support

Not all processes can or should be built around the needs of an ageing population. Firms need to consider their target markets and commercial efficiency. But where other considerations are weighed more highly, then firms could consider how they support older consumers, especially as their needs change over time. Firms could:

- understand how to help older customers find the most appropriate products and services for their needs. This includes developing new specific products to fill product gaps in the market
- help customers to recognise when they are having difficulties – and encourage them to ask for more help
- take steps to mitigate risks and provide appropriate support as consumer needs and circumstances change

Continuously review and adapt strategies

The landscape is ever shifting, so this cannot be regarded as a point in time challenge. It requires continual strategic evolution, not one-off, short-term solutions, or 'box-ticking' approaches. Firms and regulators need to be vigilant to this. In particular, firms could:

- consider if they need to adapt or retain access channels for groups who depend on them
- continuously review strategies, business models, supporting policies, controls and MI. This is to ensure they remain appropriate in light of demographic change or changing consumer behaviours and needs. This includes being mindful of the risk that business changes can lead to unintended exclusion, or poor customer outcomes

Workstream findings

In addition to the points above, we have set out below the key findings and ideas for firms and others to consider for some of the workstreams we explored:

Engagement with retail banking (Chapter 3)	
1	Staff can be trained to notice when a customer is experiencing difficulties and ensure that, if appropriate, the customer is quickly referred to a specialist team.
2	Banks could consider creating a safe environment and a culture where customers are comfortable to talk about the difficulties that they are experiencing. Systems and processes could support front line staff in identifying specialist needs and appropriate options or referrals to support the customer.
3	Firms may wish to consider how to identify those who are finding a specific transaction or interaction particularly challenging, and take steps to remove them from standard processes and provide specialist support to help resolve their query.
4	Firms could consider the needs of their older consumers when developing distribution channels or transitioning to new technology. This could include considering what support is required to help consumers transition to new ways of engagement.

Third party access and planning ahead (Chapter 4)	
5	Firms and their industry groups could consider making it easier for older people and their carers to set up and use third party access arrangements safely. Firms and trade bodies could examine potential gaps in third party access arrangements for consumers across all sectors, to explore how to reduce consumer harm.
6	We welcome UK Finance's (formerly the BBA's) third party access principles and plans to consider an industry wide framework for a third party mandate. We urge UK Finance to assess the effectiveness of their third party access principles 12-24 months after publication.
7	Firms could develop straightforward options to encourage legitimate delegated access for carers, whilst maintaining robust safeguards to reduce the risk of abuse.
8	Firms could proactively tell older consumers and their carers about all available third party access options.
9	We welcome broader, longer term governmental consideration of the benefits of creating an end-to-end digital LPA system and centralised database. This system might need to be scalable as Lasting Powers of Attorney (LPA) numbers continue to grow, whilst maintaining paper-based alternatives for those reliant on them.
10	We encourage the Money Advice Service and its successor body, the Single Financial Guidance Body (SFGB), consumer groups, the Office of the Public Guardian (and its equivalents in NI and Scotland) and firms, to: • encourage consumers to plan ahead • better understand the triggers which improve financial resilience • dispel myths and highlight the risks of PIN and password sharing • promote consumer understanding of the benefits of planning ahead for third party access.
11	We encourage firms to work with their trade bodies to clarify the challenges they face in balancing protection and access, and to develop best practice solutions.

Later life lending (Chapter 5)	
12	Lenders and intermediaries may wish to consider: • reflecting on current policies and customer proposition, through an older consumer lens • planning for consumers' needs at different points in the consumer and product lifecycle, and consider how consumer needs can be serviced in a flexible way • considering potential innovation in product features or terms and supporting services to accommodate specific life events.
13	Lenders and intermediaries could consider how to signpost consumers to alternatives when they decline someone due to upper age limit or affordability. This could be by reiterating that a 'no' from one firm does not necessarily mean a lack of eligibility across the board, and signposting alternative options, such as researching: • later life lending options independently, with support of a trusted relative, or getting assistance from a Third Sector body • lifetime mortgages (information on lifetime mortgages can be found on the Money Advice Service website) • specialist brokers who can navigate the market, especially those with a focus on later life lending or retirement advice.
14	SFGB could explore ways to help integrate support across residential and lifetime mortgage sectors for older consumers. This could be integrated with pension guidance as part of planning for and support in retirement.
15	Guidance services and industry could develop better tools to help consumers compare and evaluate objectively their later life borrowing options.
16	Industry could encourage and help advisers to expand their services to include both residential and lifetime mortgages.
17	Lenders and advisers in this market could consider how to deliver a more joined up approach to advising later life borrowers.

Conclusions

This is a complex set of issues that will require action from multiple parties to address over time. In many cases, solutions do not lie within the remit of any one party – including the FCA, or the regulated firms that we supervise.

We have considered who might be best placed to address the gaps to improve financial markets for older people. Sometimes we have suggested that other bodies might be better placed to take forward topics outside the FCA's remit. The key to developing effective mitigation strategies and delivering better outcomes is to work with the market and other stakeholders such as consumer groups, trade bodies and government.

Our conclusions are grouped in the following areas which represent the main issues we found:

- **Retail Banking** – where many common issues arise for older consumers
- **Third Party Access** – ranging from powers of attorney to sharing details like passwords
- **Later Life Lending** – ensuring appropriate access for older consumers
- **Long Term Care** – how the financial services markets responds to the challenge

In each, we have adopted a broad strategic approach based on the following:

- **Best practice** – where we can, we highlight examples of good practice
- **Partnership working** – many of the problems involve a number of public agencies and firms. Where possible, we will convene and work with the relevant bodies to look for practical solutions that are often in their control
- **Changing policy** – where appropriate, in future we will consider changing our own rules to promote changes in the market.

The FCA has a number of other workstreams that are relevant to older consumers. This includes our ongoing work on pensions, advice and guidance, scams and fraud. The findings from the Ageing Population Project have been shared with these workstreams and will inform our future approach to these issues.

Next steps

The response to our Discussion Paper strongly supported the FCA's work on vulnerable customers,[4] access to UK financial services and our focus on demographic change.[5] Firms and trade bodies reported large changes to firms' interaction with vulnerable consumers. There is the start of work across industry to reduce access barriers and provide appropriate support for consumers. Respondents to the Discussion Paper asked us to continue to convene and lead debates. We will do so, but also want to work with government and other bodies to develop inclusion in financial services and set clear expectations for firms.

Many organisations, including the FCA, are at a relatively early stage of addressing this. There is ongoing work required to explore issues and mitigate potential harm. Our Ageing Population work is our first step in this journey.

Our response to demographic change will require periodic, strategic review over time, and extends beyond the needs of older consumers. Our wider Approach to Consumers (to be puslished later this year) will summarise a number of important factors which will affect how we exercise judgement and 'regulate for the future'.

We anticipate further review in three to five years of how the financial services industry is adapting to meet the needs of older consumers. This will allow time for firms to respond to the issues discussed in this paper and for us to consider if further rules are needed beyond the core requirement to Treat Customers Fairly.

We will continue to pay close attention to issues that affect older customers. We will do this through our sector views and strategies[6] and ongoing work with firms, trade and professional bodies, and consumer groups. We will consider intervening if harm has crystallised or is increasing.

4 In February 2015, we published Occasional Paper 8: Consumer Vulnerability. The Occasional Paper aimed to broaden understanding and stimulate debate around vulnerability, provide practical help and resources for firms in developing and implementing a vulnerability strategy, and show examples of good practice. See: https://fca.org.uk/publication/occasional-papers/occasional-paper-8.pdf

5 In May 2016, we published Occasional Paper 17: Access to Financial Services in the UK. This drew on the analysis from Occasional Paper 8, which identified that access was one of the problems vulnerable consumers face. Occasional Paper 17 aimed to stimulate ideas and foster a culture of access and inclusion throughout retail financial services, encompassing firms, regulators, government and consumer organisations. See: https://fca.org.uk/publication/occasional-papers/occasional-paper-17.pdf

6 Our Sector Views bring our collective intelligence together and give an overall FCA view of how each sector is performing. They are published once a year and are retrospective. They set out what where we need to know more and help determine our priorities for a sector, our resourcing decisions and our operational plans. Sector Strategies are informed by the Sector Views and are published in the Business Plan each year.

1 Introduction

The ageing population is one of the key social and environmental factors that will shape the future of UK financial services. This is also a global trend, as almost every country has a growing older population.[7] By 2020, the number of consumers aged over 65 in the UK is expected to increase by 1.1 million,[8] and by 2040, nearly one in seven people is projected to be aged over 75.[9] Although recent research suggests that gains in life expectancy are gradually slowing,[10] there has been a significant improvement in longevity in the last 33 years.[11] Consumers aged 85 and over are the fastest growing segment of the UK population, and the 'baby boom' generation is entering retirement.

Our Mission[12] makes clear our intention to intervene when we identify risks of actual or potential harm and to act where we can add the greatest public value consistent with our objectives. The scale and significance of the changing demographic, and likely impact on financial services, led us to highlighting the ageing population as a key area of interest for the FCA.[13]

The FCA has an important role in meeting this challenge. The ageing population is a significant public policy challenge, and we launched the Ageing Population Project in February 2016 to start exploring the key issues and opportunities that will accompany this changing demographic. We want to ensure that the regulatory environment facilitates good outcomes, promotes positive innovation and incentivises firms to deliver high quality products and services for all end users, including older consumers. We also need to maintain a robust regulatory regime to ensure that consumers are adequately protected from harm, including financial exclusion.

Ageing is just one factor that impacts a consumer's ability to make informed decisions about their finances. Consumers are being asked to take responsibility for increasingly complex financial decisions in later life, including planning for long periods of retirement and potentially periods of ill health. Changes over time to government policy on housing, taxation, state pension and social care all impact on the level of resources people will need as they enter later life. Combined with economic influences such as inflation and fluctuating house prices, such factors can make planning and decision making particularly difficult.

The pace of change is rapid, and compounded by wider societal and technological developments that are changing how consumers transact, access and use financial services. Against this backdrop, firms need to adapt to make sure that their products and services meet the changing needs and circumstances of an ageing customer base and work well for a diverse

7 See: www.un.org/en/development/desa/population/publications/pdf/ageing/WPA2015_Report.pdf
8 Political challenges relating to an aging population: Key issues for the 2015 Parliament (2015): http://parliament.uk/business/publications/research/key-issues-parliament-2015/social-change/ageing-population/
9 Future of an Ageing Population, Government Office for Science (2016) p 6. https://gov.uk/government/uploads/system/uploads/attachment_data/file/535187/gs-16-10-future-of-an-ageing-population.pdf
10 Life expectancy rises 'grinding to halt', University College London (2017): http://ucl.ac.uk/iehc/iehc-news/michael-marmot-life-expectancy
11 National life tables, UK: 2013–2015, The Office for National Statistics (2016): https://ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/lifeexpectancies/bulletins/nationallifetablesunitedkingdom/20132015
12 FCA Mission (2017): https://fca.org.uk/publication/corporate/our-mission-2017.pdf
13 FCA Business Plans in 2015/16 (https://fca.org.uk/publication/corporate/business-plan-2016-17.pdf), 2016/17 (https://fca.org.uk/publication/corporate/business-plan-2016-17.pdf) and 2017/18 (https://fca.org.uk/publication/business-plans/business-plan-2017-18.pdf)

range of consumers, including those who have more specialist needs or are vulnerable. This has implications for how retail products are designed, distributed and marketed to customers.

We identified a range of issues facing older consumers and took a case study approach to scoping the problems. These were:

- **Understanding older consumers:** We analysed the specific needs, vulnerabilities and preferences of older consumers to enhance our understanding of the issues facing older people
- **Engagement with retail banking:** We considered the specific challenges faced by older consumers in retail banking, examining existing industry initiatives
- **Third party access and planning ahead:** We explored how firms can help older consumers manage their money more easily and safely through a third party, such as a friend, relative or other trusted carer
- **Upper age limits and product innovation in the mortgages sector:** We considered whether products and services in the mortgage sector met the needs of older consumers. This included identifying barriers to product or service development to facilitate positive innovation in the interests of older consumers[14]
- **Long term care:** We considered whether consumers can access regulated financial advice that is clear, accurate and appropriate when looking to fund their long term care needs. We also identified wider public policy issues outside of the FCA's remit and explored potential interventions the FCA and others might make to improve access to, and quality of, advice and products to fund a Long Term Care needs.

Our detailed findings are set out in Chapters Two to Six of this Occasional Paper.

We also commissioned two pieces of external research by the Big Window to support our work and to consider how real consumers make decisions in practice:

- **'the Ageing Mind'**[15]– a literature review of scientific research exploring the impact and effect of cognitive ageing and cognitive decline (explored further in Chapter Two) (referred to throughout this document as 'The Ageing Mind Report'), and
- **'Coping Mechanisms and Third Party Access'**[16] – qualitative research exploring: i) the challenges faced by older consumers and their carers in accessing and dealing with retail banking products; and ii) problems arising regarding third party access (explored further in Chapters Two, Three and Four) (referred to throughout this document as the 'Coping Mechanisms and Third Party Access Report')

The recommendations made in these reports are those of the Big Window, not the FCA. They do not constitute FCA rules, guidance, policy or other form of instruction to the industry. These pieces of research have been published alongside our Occasional Paper to support firms in understanding the needs, circumstances, experiences and preferences of older consumers. This should in turn support the development of retail financial products and services that meet the complex and changing needs of this diverse group of consumers.

14 In this chapter we look at the mortgages sector in part because it may help firms in other sectors – for example, our Retirement Outcomes Review indicates there may be lack of innovation in retirement products.

15 https://www.fca.org.uk/publication/research/ageing-mind-literature.pdf

16 https://www.fca.org.uk/publication/research/coping-mechanisms-third-party-access.pdf

2 Understanding older consumers

- People are living longer than ever before. However, they are not necessarily living in good physical or mental health. The ageing process may impact a person's ability to make financial decisions, and raise challenges and access barriers for both new and existing products.
- Firms could consider how they meet the needs and circumstances of older consumers. They could consider how this affects the design, delivery and evaluation of financial services products, marketing and distribution channels.
- Older consumers who are vulnerable are at risk of harm as a result of access barriers, insufficiently tailored customer service and financial exclusion. The older old are potentially subject to higher risks of exclusion and harm than other groups.
- In many cases, these issues mirror those identified in other groups of vulnerable consumers. Improvements that firms make to services for older consumers experiencing difficulty, or to increase inclusion, are likely to have a wider benefit for other groups
- The risks identified are likely to grow in scale, urgency and significance as older consumers represent a larger – and increasing - proportion of the UK's population, and levels of dementia and Alzheimer's Disease increase

Introduction

We want there to be good-quality products and services that are value for money and meet consumers changing needs.

To support this, firms need to understand the diverse needs, circumstances and capabilities of older consumers. This will help consumers make better choices and act on relevant information. It will also prevent harm from occurring where possible.

This chapter sets out the results of our research into the specific challenges, access barriers and issues that older consumers may face. For the purposes of this Occasional Paper, we define 'older consumers' as those aged 55+. We recognise that this encompasses a wide variety of experiences and perspectives.[17]

We have drawn on existing analysis, internal and external research, Experian segmentation and the data from the Financial Lives Survey 2017 (our Financial Lives Report is due to be published shortly). We have used this to understand more about the types of assets held by older consumers, their financial circumstances and potential gaps in the market. We also wanted to gain a deeper understanding of consumer needs, behaviour and demographics.

17 We selected age 55 as this is the minimum age when consumers can access defined contribution pensions pots, unless they have a protected retirement age or are in ill-health.

We identified four key areas where older consumers typically differ to other consumer groups:

- financial needs and circumstances
- capability and preferences
- likelihood of experiencing specific life events
- likelihood of experiencing changes in physical and mental health

We explore each of these areas in detail below. In addition, The Ageing Mind Report reveals other factors that affect older consumers' ability to make complex and unfamiliar decisions. It highlights the challenges that arise from cognitive decline, and increased incidence of conditions like dementia.

We want firms to reflect on this information and consider what it means for their products, services and strategies – both now, and in the future.

Profile of older consumers

Financial needs and circumstances

We used Experian's segmentation tool to consider key socio-economic and demographic characteristics of UK consumers over 55. A full copy of the segmentation analysis can be found in Annex 2.

This segmentation identified nine profiles of particular relevance to understanding older consumers, as set out below. This complements the findings of the data gathered via our Financial Lives Survey 2017 by understanding the type of assets held by older consumers and their financial circumstances. The Financial Lives Survey 2017 focused on consumers' personal circumstances, experiences and perceptions.

	Established Investors	Career Experience	Mutual Resources	Small-scale Savers	Respectable Reserves	Golden Age	Cash Economy	Home-equity Elders	Declining Years
Description	Older families with children	Middle-aged singles	Extended families	Older singles	Older couples/ singles	Elderly retired singles/ couples	Older/elderly households	Retired homeowners	Older retired singles/ couples
Employment status	Professional or managerial roles	Professional or managerial roles	Working	Working	Already retired	Already retired, formerly professional	Mixed: retired/ working	Already retired	Already retired
Income	High disposable income	Average incomes	Moderate incomes	Low disposable income	Moderate incomes	High disposable incomes	Receive numerous benefits	Low incomes	Low disposable income, benefit receipt
Pension provision	Large pension funds	Have sizeable pension funds	Limited pension fund	Limited pension fund	Large pension fund	Large pension fund	Very limited retirement provisions	Very limited retirement provisions	Very limited retirement provisions
Savings	36% £50k+	16% £50k+	11% £50k+	14% £50k+	25% 50k+	40% £50k+	4% £50k+	24% £50k+	10% £50k+
Mean residential property value*	£720,000	£270,000	£200,000	£150,000	£210,000	£400,000	£100,000	£200,000	£130,000
% in bad health	3%	4%	5%	5%	6%	4%	10%	5%	8%
% day to day activities limited	14%	16%	17%	18%	21%	16%	27%	19%	25%
Mean household income**	£102,000	£44,000	£36,000	£26,000	£34,000	£37,000	£14,000	£17,000	£12,000
Pension fund value	16%>£500k	20%>£100k	35%<100k	41%<£100k	19%>£100k	10%>£500k	27%<£18k	41%<£18k	48%<£50k
Savings and investments value	29%>£200k	30%>£50k	58%<£10k	22%>£50k	34%>£50k	38%>£50k	40% nothing	32%>50k	25% nothing
Tenure*: Home owner/mortgage**	77%	73%	57%	83%	82%	91%	33%	92%	59%
Tenure*: Rent**	11%	21%	20%	11%	8%	4%	58%	6%	38%

*the value of home owner property rounded to £10k **hh income rounded to £1k ***does not add to 100% as 'other' category excluded from table eg living with family

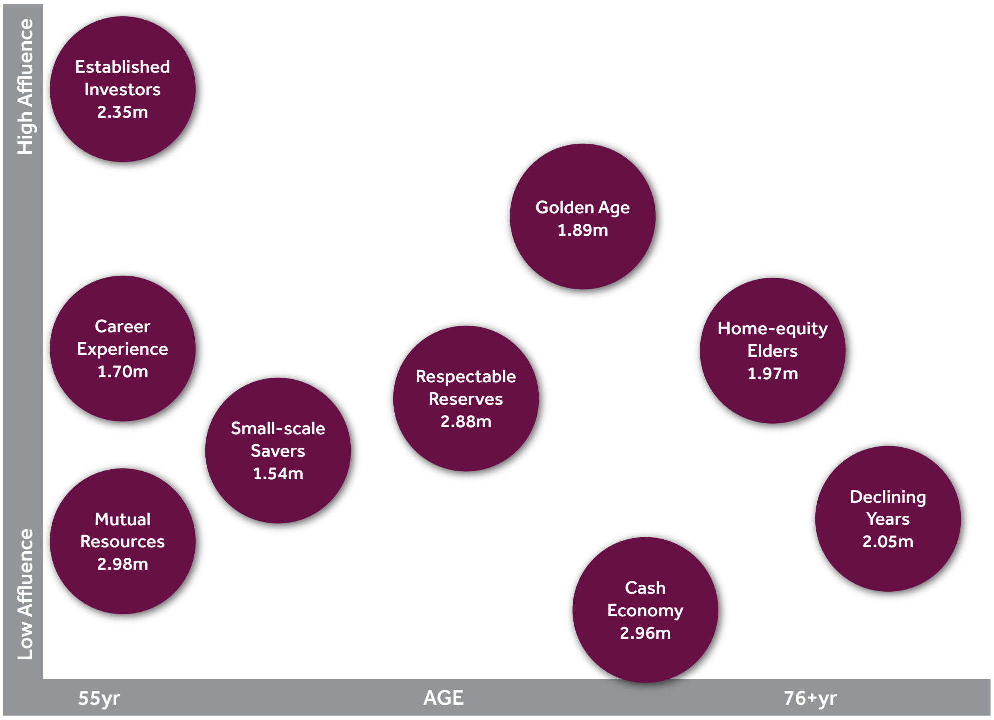
Description of consumer segments[18]

- **Established Investors:** older families who enjoy an excellent financial position. They have achieved professional success and have higher than average incomes or asset holdings. Their considerable holdings are carefully managed, and they value expert insight into the latest investment options.
- **Career Experience:** this group is in the second half of their working life. They often rely on a single salary and are working towards paying off their mortgage while building their savings. They may respond to relevant product offers via email and often read online newsletters.
- **Mutual Resources:** older families whose incomes don't provide for many extras. However, their financial position is enhanced by the support of extended family members (eg young adults still living at home) or the wider community (through the community support of a family business).
- **Small-scale Savers:** older employees who have worked solidly for many years but not saved significant amounts. They own their home, which provides some certainty in the years ahead. They may be interested in no-frills offers that provide good value.
- **Respectable Reserves:** older homeowners in their pre-retirement and early retirement years. They have a reasonable level of assets saved and with careful planning can look to a positive future. They appreciate traditional communications that contain sound financial advice.
- **Golden Age:** retired people who are able to make the most of the opportunities that life after work can bring. They have generous pension income to enjoy, and manage their considerable assets with care. They are likely to read editorials and newsletters that give investment advice and address retirement issues.
- **Cash Economy:** mature households struggling to get by on minimal incomes (less than £15,000). They have few accounts and often prefer to use cash for payment. Television advertisements and discount offers through the door are more likely to gain a response.
- **Home-equity Elders:** seniors living stable retired lives, with modest incomes matched to modest spending. They own their home outright, which provides them with security and, if necessary, an asset. They aren't easily influenced but might respond to printed advertisements in newspapers or in the post.
- **Declining Years:** pensioners who have low incomes and few savings. They have established a budget and know what they can afford and when; a routine that mostly allows them to buy the things they need and to pay bills. They are receptive to traditional advertising and look for familiar brands at low prices.

Experian mapped these nine segments according to consumer affluence (level of total wealth) and age. They identified considerable diversity of needs and circumstances across all age brackets.

18 The segment descriptions are those of Experian, not the FCA

Consumer segments mapped by affluence (level of total wealth) and age



Source: Experian 2017[19]

As the segmentation table above shows, there is significant disparity of wealth and assets between and within age groups.

There tend to be large differences between the different segments identified in the research. Those with the greatest income and assets are also likely to be in the best health with larger amounts of savings than those with lower incomes. It is important to note though that within each segment there are individuals who do not fit neatly into the category. Each of the segments could be dissected further. People in the lower income segments are less likely to move into other segments as they age.

A number of firms across a range of sectors were undertaking their own consumer research and segmentation modelling to gain a deeper understanding of the needs and preferences of the consumers making up their target markets.

Identifying and persuading consumers aged 65+ to participate in research can be challenging. This is particularly the case when methodologies or calls for respondents are delivered online. It is even harder to recruit research participants who are living with pathological or cognitive conditions. Extra care is needed to safeguard these consumers at all stages of the research process. Recruitment and fieldwork can be costly and time-consuming. However, these consumers can provide very valuable perspectives. They may help researchers identify potential access barriers, needs and preferences that apply to smaller sub-sets of target markets at design or proof of concept stage.

Age UK research indicates that 1.9 million older people in receipt of a pension currently live in poverty.[20] A further 1.2 million live just above the poverty line. A significant number of older consumers appear to have very limited provisions for retirement

19 Experian's Financial Strategy Segments tool was built in 2016 using a wide range of data including demographics, lifestyle, social, economic, behavioural, product consumption, service and channel preferences. Reproduced with permission of Experian Ltd.

20 See: www.ageuk.org.uk/latest-press/rise-in-poverty-response/

such as savings, pension funds, or disposable income. This has an impact on quality of later life and reduces resilience to financial shocks. Because these consumers are also generally less well insured, the impact of any emergency expenditure will be significant.

People tend to underestimate their longevity and have an overly optimistic view of their needs in later life.[21] The role of defined contribution pension (DC) pots is expected to increase as the source of retirement income. This is because defined benefit pension (DB) schemes are in decline, and automatic enrolment will mean more consumers using workplace DC schemes to save for retirement. As a result, DC pensions will increasingly form a significant portion of wealth and pension income.[22]

Consumers do not adequately consider risks of changes to their future personal circumstances such as ill health or loss of mental capacity. They tend to underestimate the impact that these life changes are likely to have. The Coping Mechanisms and Third Party Access Report indicates that many are failing to plan ahead for the long term to ensure that they are adequately protected and provisioned. This is compounded by a lack of transparency and uncertainty about future state benefits, as well as a lack of understanding of the limited returns that smaller pension pots can provide.

Nonetheless, many older consumers have considerable assets like sizeable pension funds or housing equity. By 2036, it is plausible that up to £2.9 trillion of assets will be held in over-55s' property.[23] This could potentially increase demand for later life borrowing to release equity in their property, or to move to more suitable housing.

Indeed, a number of reports highlight the relative wealth of baby boomers compared to younger generations. In comparison, younger generations may find it harder to get on the housing ladder, face low wage growth, and may be more comfortable with debt. As this generation grows older, they may have less financial security than their parents – but are potentially living longer than prior generations.[24] We recognise the importance of this challenge and are conducting internal research into the varying circumstances of consumers across generations and how these may evolve over the next 10 years.

Our Financial Lives Survey 2017 included a range of methodologies to ensure we reached a cross section of consumers with differing needs. We undertook just under 900 face to face interviews to ensure representation both of those without internet access and those aged over 70.[25]

Our methodology enables us to gain insight into the specific issues facing older consumers, and to understand their perspectives, generating important data to support our Ageing Population work. Our Financial Lives Survey provides further insight into the needs and experiences of a range of UK age groups. It reveals interesting similarities and differences which are likely to impact on customer service and product provision.

21 Retirement income market study: Final report – confirmed findings and remedies, March 2015, p 38. Retrieved from https://fca.org.uk/publication/market-studies/ms14-03-3.pdf

22 https://fca.org.uk/publication/market-studies/retirement-outcomes-review-interim-report.pdf, paragraph 3.16

23 Over -55s hold more wealth in their homes than the GDP of Italy, Age Partnership (2016): http://careers.agepartnership.co.uk/over-55s-hold-more-wealth-in-their-homes-than-the-gdp-of-italy/

24 FCA Business Plan, 2017/2018 (2017) p 21: https://fca.org.uk/publication/business-plans/business-plan-2017-18.pdf

25 Further information on how we conducted the Financial Lives Survey 2017 will be included in our forthcoming publication of the survey

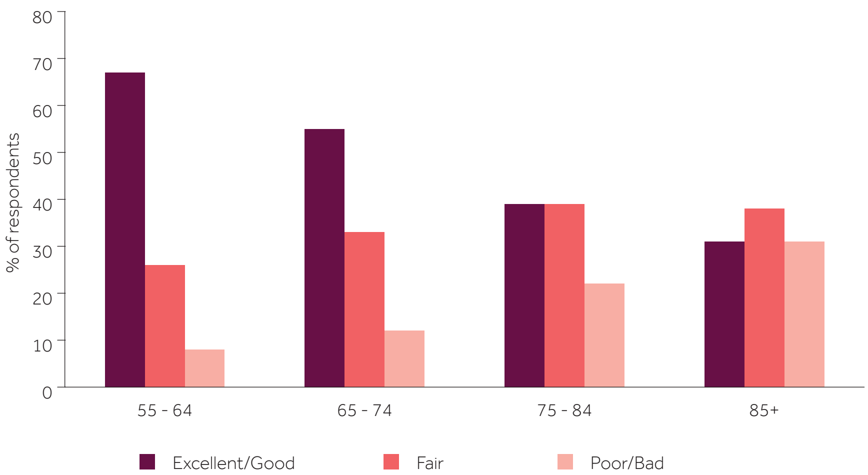
Capability and preferences

Experian's segmentation also reveals marked differences in use of distribution channels, media consumption, behaviours and attitudes. Switching behaviours and levels of brand loyalty vary across age groups and segments. According to self-reports, those with higher levels of confidence and capability tend to switch more.

Internet use decreases fairly rapidly after 55. Just under half (46%) of adults aged between 75 and 84 have never used the internet, rising to seven-tenths (71%) of those aged 85+.

Consumers aged 75+ who use the internet at least sometimes are more likely than younger cohorts to rate their ability to use the internet poorly.

Overall, how would you rate your ability to use the Internet?



Source: FCA Financial Lives Survey 2017 (D20)[26]

Older consumers are particularly concerned by the increasing pressure to move to online channels to access and manage their finances. Some older people may not want to use online services themselves. However, they often allow their carer or other trusted person to access and check their account with them.[27] Some older consumers also indicated mistrust and fear with using online services.[28] A number of firms have launched initiatives to deal with this, and support customers transitioning online.

26 Base: All UK adults using the internet at least sometimes (w-base: 11,471 / u-base: 12,211), excluding 'don't know' responses (1%). The Financial Lives Survey 2017 'base' information always follows the format of Base: All UK adults (w-base: 12,031 / u-base: 11,923), excluding 'don't know' (2%) and 'prefer not to say' (4%) responses. This tells us who was interviewed (e.g. a sample of all UK adults); what percentage, after weighting, did not or preferred not to give an answer (we only exclude 'don't know' answers where they are not meaningful), and how many adults, after any such exclusions, were interviewed (the u-base, or unweighted sample size). The comparison of the w-base, or weighted sample size, provides an indication of how hard weighting had to work.

27 https://www.fca.org.uk/publication/research/coping-mechanisms-third-party-access.pdf

28 Damant J and Knapp M, What are the likely changes in society and technology which will impact upon the ability of older adults to maintain social networks of support? Foresight, Government Office for Science (2015) https://gov.uk/government/uploads/system/uploads/attachment_data/file/463263/gs-15-6-technology-and-support-networks.pdf

Case study
One bank provides a range of online courses which help people learn about online financial services and products. Their online practical guides cover topics like setting up email, shopping online, using YouTube or Skype, and provide helpful step by step instructions.

They also run face to face sessions in branches across the country. These provide a relaxed environment for anyone to attend a session to learn more about how to use technology and online services, including internet banking.

Internet security is a big focus in all of the materials and training provided by the bank. They recently launched a course that specifically covers guidance on how to keep yourself and your devices safe while online.

The pace of digital change and transformation is rapid. Tools such as online banking or mobile apps may become more familiar (and comfortable) for consumers who have grown up using them or used technology in the workplace. However, technological change should not be treated as a 'point in time' challenge, or a phenomenon that is only applicable to the older old.

The Ageing Mind Report indicates that older consumers may experience difficulties with unfamiliar tasks or distribution mechanisms. They are generally most comfortable with tasks that they have personally and regularly undertaken. This is not specific to any one channel or route. Firms must take care to consider those who may be left behind, or struggle to keep up with the pace of technological change.

Consumers prefer to access products and services in different ways. This creates challenges for firms in servicing a diverse and evolving target market. However, some cohorts tend to have specific preferences or inclination to use certain channels. For example, younger consumers tend to do retail banking transactions online, while older consumers prefer face to face engagement, even for the most straightforward transactions.[29]

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.[30] This is particularly prevalent amongst the older old.[31] 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.

Older people are less likely to undertake a wide range of activities online,[32] with overall internet usage decreasing with age.[33] The Office of National Statistics (ONS) report on Internet Access[34] shows a significant difference between those over 65 years old and

29 Our Financial Lives Survey 2017 showed that 30% of those over 55 years paid their bills in branch, compared to 13% of those between 18-54. The survey also showed that 53% of those over 55 paid bills online, compared to 83% of those between 18-54.

30 Tackling financial exclusion: A country that works for everyone?, House of Lords Select Committee on Financial Exclusion (2017): https://publications.parliament.uk/pa/ld201617/ldselect/ldfinexcl/132/132.pdf

31 Financial Lives Survey 2017

32 Adults' media use and attitudes, Ofcom (2016) p 38: https://ofcom.org.uk/__data/assets/pdf_file/0026/80828/2016-adults-media-use-and-attitudes.pdf

33 Financial Lives Survey 2017

34 Internet access - households and individuals (2017): https://ons.gov.uk/peoplepopulationandcommunity/householdcharacteristics/homeinternetandsocialmediausage/bulletins/internetaccesshouseholdsandindividuals/2017

those who are 16-24. Overall usage was lower for older consumers on general online activities such as browsing and communication. The main gaps were: entertainment (where twice as many 16-24 year olds accessed entertainment online compared to those who were 65-74); social media (where 93% of the younger group used social media compared to 37% of older consumers); and online financial transactions, which were undertaken by just 29% of over 65 year olds.

Research by ONS shows that an older person may be comfortable using the internet for making social connections, like talking to their grandchildren over Facetime or Skype.[35] However, they may be more fearful of making online financial transactions. In other cases it may be that older users are setting up online banking, but the actual users may be adult children who are caring for their parents.

These issues are explored further in our case study on 'Engagement with Retail Banking' (Chapter Three).

Life events of older consumers

Older consumers are more likely to experience certain life events, such as bereavement, than younger consumers. This can include the death of a spouse or person providing significant emotional, financial or personal support. The older old are the most likely to experience bereavement with 61% of widowers in England and Wales being over 75 years of age.[36]

> **"The minute he passed away, my mind was not anywhere to be quite honest, because he died suddenly. You have to get your head around that and then speak to certain people."**
>
> ***Bereaved consumer***

Although not everyone will react in the same way to life events, these types of circumstances can be distressing, especially when living with an illness or impairment. Consumers may feel stressed and anxious, unable to cope, and too upset to talk. They may find it difficult to concentrate, think clearly, assimilate information and make decisions. It may be hard for them to deal with new or unfamiliar tasks. In many cases, the consumer's needs may extend beyond financial services into mental health support, social services, advice about budgeting or claiming new benefits, debt advice or medical support. At this stage they can become vulnerable, or have existing vulnerabilities exacerbated.

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.

35 Adults' media use and attitudes, Ofcom (2016). Fig 14, p 38: https://ofcom.org.uk/__data/assets/pdf_file/0026/80828/2016-adults-media-use-and-attitudes.pdf

36 Later Life in the United Kingdom (2017), Age UK, Page 3, footnote 17 https://ageuk.org.uk/Documents/EN-GB/Factsheets/Later_Life_UK_factsheet.pdf?dtrk=true

We recognise the challenges that can arise for firms, particularly those with large numbers of front line staff. Staff on the frontline do not need to be experts, but they need sufficient training to have a proper conversation, to know where internal (or external) expertise lies, and know how and when to refer on. We encourage firms to look out for any gaps in policy or practice in frontline staff. For example, if staff don't know about or follow head office policies. This will help staff spot when to refer customers to specialist teams who have authority to make more flexible decisions, or provide support.

A number of firms have developed specialist staff training, supported by appropriate systems and information:

- One bank has developed a Bereavement Guide that signposts to other organisations such as local authority Registration Offices. It also covers important services such as emotional support agencies and who to contact for funeral services

- Another bank has created an internal learning tool to help employees better understand the needs of customers with specific issues or requirements, for example those in financial difficulty, older customers and their carers. The platform also promotes partnerships and volunteering with other local organisations and engagement with local communities. National organisations and charities have collaborated in development, including MAS, StepChange and MIND.

- An insurance firm refers older customers on lower incomes to Tax Help for Older People. This gives free, independent and expert help if customers cannot afford to pay for professional tax advice

Case study
A large high street bank has introduced a service to support bereaved customers that is similar to the Government's 'Tell Us Once' service. Consumers only need to report the death to one member of staff, and all other brands within the Group are automatically notified. This includes applying appropriate flags to the deceased product holdings to stop correspondence. The firm also produced a Bereavement Guide which sets out when, how and how much of the deceased's accounts can be accessed, and clearly explains the process that needs to be followed.

The service is primarily designed to ensure that the financial affairs of the deceased are dealt with efficiently. However, this is balanced by supporting the person reporting the loss of their loved one, and considering the additional needs and sensitivities which may arise. In particular:

- bereaved consumers are able to choose how they report their loss; by email, face to face or on the telephone

- specially trained bereavement advisers are available in branch. These staff members provide face to face help, advice about the process that needs to be gone through and assistance with transactions

- the process is supported by clear information online and in-branch, including a list of the documents needed, and the process that applies. The firm also suggests attendees prepare a list of written questions, recognising that it is a difficult and distressing time
- all consumers are offered an appointment with a specialist advisor. The advisor carries out an initial triage process to assess the specific circumstances. They also complete as much of the paperwork as possible for the consumer in branch during the visit
- more complex cases are passed to a specialist bereavement unit for appropriate support, including enhanced contact and completing all paperwork. This service is offered to consumers who are deemed most vulnerable, as well as complex financial cases.

How health and cognitive change affect decision making

Physical and mental health

Around 4 million older people in the UK – 40% of all people over 65 – have a limiting longstanding illness.[37] These illnesses can affect decision making, memory, dexterity and longevity, and affect the needs of the customer and the firm.

Whilst improved healthcare and living standards have enabled many people to live longer lives, the older old are also more likely to be living with ill health. Stakeholders have noted that associated service provision, including in the financial services sector, has not yet caught up or adapted sufficiently to support consumers effectively.[38]

Our Financial Lives Survey 2017 indicated that six in ten (59%) of consumers aged 85+ and two-fifths (39%) of those aged 55+ identified themselves as having a physical or mental health condition or illness lasting or expected to last 12 months or more. This is significantly higher than the proportion (15%) of adults aged 18-54 making the same assessment.[39]

The conditions reported in the Financial Lives Survey 2017 include deterioration in eyesight, hearing loss, mobility issues and onset of pathological conditions, including attention deficit disorder. These health conditions have an impact on their daily life – around a quarter (23%) of consumers aged 55+ with a physical or mental health condition lasting or expected to last 12 months or more reported that the illness or impairment that they were living with affected their ability to undertake day to day activities a lot.[40]

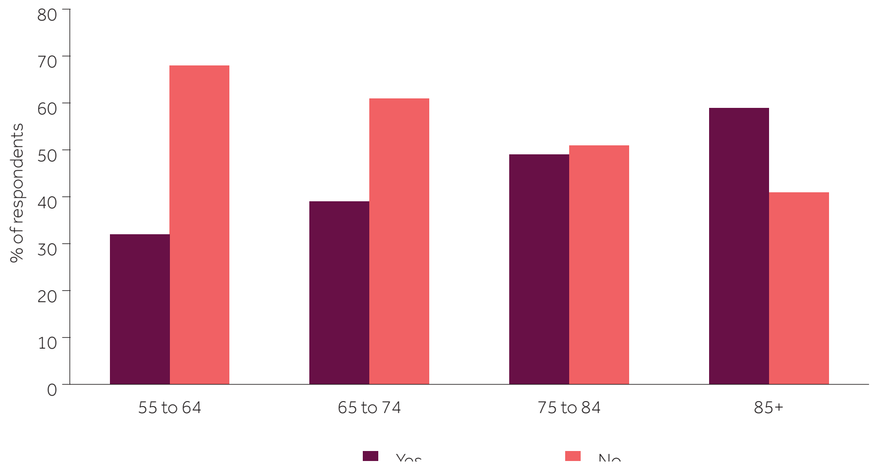
37 Later Life in the United Kingdom, Age UK (2017) p 7: https://ageuk.org.uk/Documents/EN-GB/Factsheets/Later_Life_UK_factsheet.pdf?dtrk=true

38 "When I'm 84" Locking the door on the older old: the challenges facing Britain's banks, Hilary Cooper, The Finance Foundation, 2016, p 11. Retrieved from: https://thefinancefoundation.org.uk/images/the-finance-foundation-when-im-84.pdf

39 Base: All UK adults (w-base: 12,031 / u-base: 11,923), excluding 'don't know' (2%) and 'prefer not to say' (4%) responses

40 51% of those consumers who responded to the question reported that their condition or illness reduced their ability to carry out day-to-day activities

Do you have any physical or mental health conditions or illnesses lasting or expected to last for 12 months or more?



Source: FCA Financial Lives Survey 2017 (D33)[41]

> **"She's lost confidence in going to the ATM machine. She's lost confidence in paying in the shops on a card. She can't find the slot for the chip and PIN. She's going round the back, she's going underneath. She says "it's not here" – 'cause she's in her 80s. She can't find it and also in a supermarket you feel under pressure, you feel rushed, so that makes things ten times worse."**
>
> ***Sharon, Carer***

The Ageing Mind Report is designed to help the industry to understand what happens to the brain as it ages.

The report presents the current academic thinking on this topic. It focuses on the challenges for consumers and the impact that ageing has on their ability to make financial decisions. It explains the implications of 'healthy' brain ageing that is part of the normal brain maturation process. It also looks at the impact of pathological change which may be due to trauma to the brain or disease, like dementia.

Cognitive ageing

The ageing population is diverse. Everybody experiences cognitive decline at different times and rates, resulting in different needs and experience across the population of older consumers. However, although there is variation from individual to individual, there is strong evidence that everyone is likely to experience cognitive changes as they age.

In most cases, normal cognitive ageing is unlikely to result in any noticeable impact on routine or daily tasks. However, it can become an obstacle in complex or unfamiliar situations, and may affect the way consumers analyse information and make financial decisions. This means that, when compared to younger people, older people may:

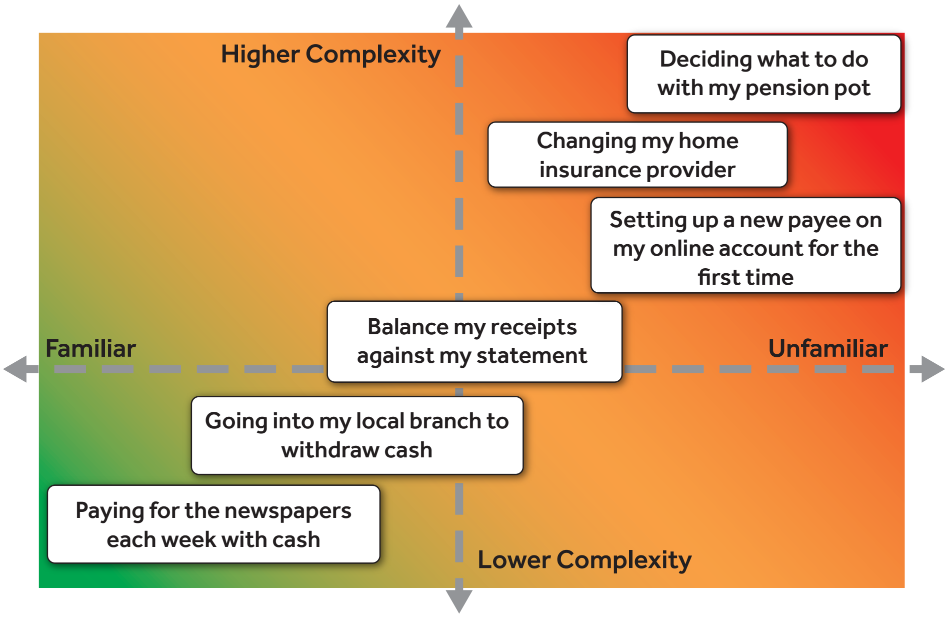
41 Base: All UK adults (w-base: 12,031 / u-base: 11,923), excluding 'don't know' (2%) and 'prefer not to say' (4%) responses

- find it challenging to divide attention between multiple pieces of information at the same time
- perform less well in tasks that require learning new skills or information
- perform less well when faced with high-complexity decisions
- perform less well in ambiguous situations that require them to do something new
- have potentially idealised views of the future, leading to increased likelihood of making prediction errors

Older people adapt to these cognitive changes by adopting new strategies like avoiding complex decisions, and considering less information when making choices.

The report indicates that a far steeper rate of cognitive decline is common amongst people in their 80's. The older old are likely to be particularly challenged by complex situations and changes to environment or context. This places them at higher risk of exclusion and poor financial decisions.

Familiarity Complexity Map



Source: The Ageing Mind Report

Older consumers face a new stream of complex and potentially unfamiliar types of financial and personal decisions; for example drawing a tax free lump sum from a pension portfolio, deciding whether to purchase an annuity, or considering whether (and how) to use accumulated assets to fund long term care.

These choices are often made against a backdrop of one or more significant changes in financial circumstances, such as retirement or change in employment patterns, and likely reductions in income. This may force changes in spending, consumption patterns and use of financial assets. Increased longevity may drive longer retirement periods to fund (in some cases, in excess of 30 years) or changes to working patterns, including working for longer or reducing the amount of paid work.

The Ageing Mind Report sets out a number of steps that firms can take to support older consumers. For example, they could consider how to introduce decision-making aids and make tasks appear more familiar.

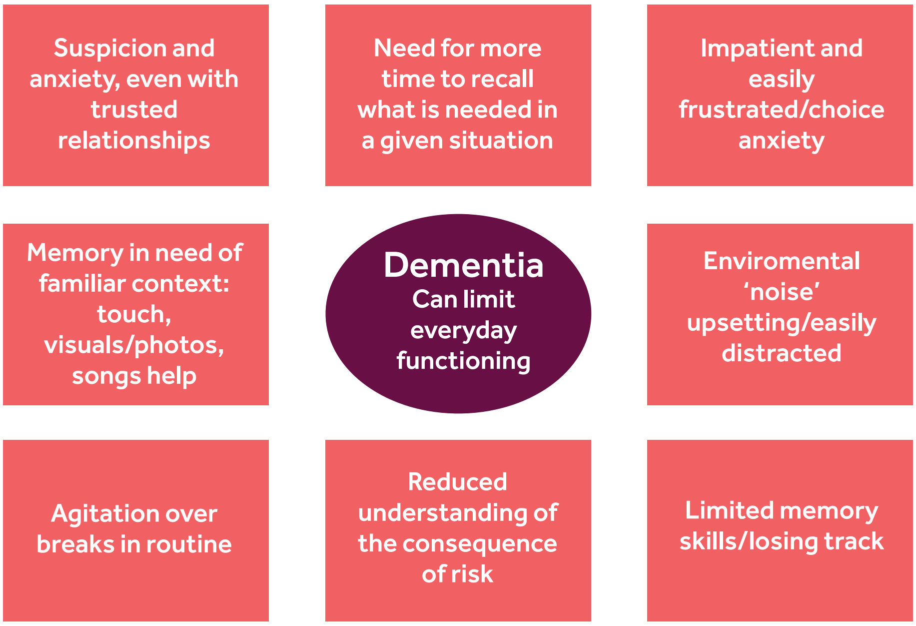
Pathological changes

People with mild cognitive impairment (MCI) or dementia experience cognitive changes that are more marked than in a healthy person of their age. This is known as pathological cognitive change and is caused by factors such as disease or trauma to the brain.

Up to 20% of the population over 65 years may currently be experiencing slight impairments in memory or other cognitive abilities that are associated with MCI. Approximately 7% of people in the UK aged over 65 are living with dementia, including Alzheimer's Disease. Amongst those aged over 80, the prevalence is much higher and current data suggests around one in six people in this age group are living with dementia.

Importantly, everyone's experience of dementia is different and will depend on the type of dementia, how far it has progressed and the rate of progression. Life experiences, personality and social environment contribute to these differences. Nevertheless, common symptoms include memory loss and difficulties with cognitive abilities and language, which have become severe enough to affect daily living.

Symptoms of dementia



Source: The Ageing Mind Report

The Ageing Mind Report indicates that people with dementia are likely to find financial tasks and decisions more difficult in certain circumstances; if they feel under pressure, are in a noisy environment, if the circumstances are unfamiliar, or if the decision is complex. Their dementia-related symptoms are more likely to come to the fore in environments that do not offer the consumer time, predictability or comfort.

Those with a cognitive impairment may find elements of the branch environment stressful and potentially overwhelming. Particular examples given by industry experts and stakeholders include the following:

- noisy environments, which can cause confusion and inhibit processing
- reflective Perspex screen, which can be disturbing for those with dementia
- unhelpful lighting, which causes reflections or stark light contrasts across the branch or between the branch and outside, which can be difficult for older people or those with a cognitive impairment
- lack of clear direction about what to do and when, for example where to queue
- no private areas to check actions or talk things through
- unfriendly or impatient bank staff (or fellow customers)
- difficulty in remembering verbal instructions or conversations, particularly if they are not given face to face

It is important for people living with dementia to have structure, time and consistency. These consumers are more likely to need secure but accessible third party assistance, with online banking providing a convenient option for such assistance

The Ageing Mind Report makes a number of recommendations which will support all consumers experiencing cognitive change, though we anticipate that these will be particularly helpful for those living with pathological conditions.

Dementia Friendly Banking Services
The Alzheimer's Society has drafted a guide for 'Dementia-friendly Financial Services'. It includes the three stages that financial services firms can go through to improve their services for those living with dementia and their carers.

- **Recognise:** Dementia is a growing societal challenge and organisations can commit to deliver basic awareness training to staff and identify the needs of customers living with dementia so they feel comfortable discussing their needs with the provider
- **Understand:** Deliver in depth training to specialist staff in the relevant sectors/ teams, as well as a practical and consistent guide for all front line staff. Training should also include ensuring staff understand their responsibilities under the relevant legislation, for example the Mental Capacity Act 2005
- **Respond:** Firms will make it easy for people affected by dementia to inform them and discuss their needs and then adapt their communication and engagement channels to meet these needs.
- The difficulty for firms is that not everyone will self-identify as having dementia, in fact many people will not have been given a dementia diagnosis and put the difficulties they experience down to the natural ageing process. Financial services providers are bound by legislative and legal constraints, as well as an overarching responsibility to protect customers, particularly the most vulnerable.
- Providers are not expected to diagnose a customer with dementia or identify every customer who is living with dementia. Customers should not be asked difficult or intrusive questions in order to ascertain whether or not they are living with dementia, nor should firms go beyond the normal terms and conditions to sell a product or service that puts either the firm or customer at risk. Compliance with legislative requirements is paramount and firms cannot change processes or procedures overnight. However, firms can take practical steps to move towards being a dementia-friendly organisation and providing the best possible service and protection for consumers.

Source: Alzheimer's Society Dementia Friendly Financial Services Charter[42]

42 See: https://www.alzheimers.org.uk/downloads/download/1801/dementia_friendly_financial_services_charter

3 Engagement with Retail Banking

- Older consumers may have access barriers or challenges when engaging with retail products, services and distribution channels, particularly where these are new or unfamiliar. This is particularly the case for the older old.
- Creating a supportive banking environment for older consumers encompasses multiple considerations, including the physical environment, systems and controls, product and service design and customer service.
- Frontline staff play a key role in supporting older consumers and systems and processes could support frontline staff in identifying specialist needs and appropriate options or referrals to support the customer.
- New products and distribution channels are changing how consumers and firms interact and firms could consider how they can support older consumers in transitioning to these.
- Technology can alleviate some of the problems that older consumers face when engaging with retail banking, but firms need to be mindful that they do not create new or different barriers to engagement

Introduction

Financial services and access to money are integral to people's lives. We want to ensure that financial services, and in particular retail banking, are able to meet the changing needs of older people so they can continue to use these services.

Our case study and research on retail banking revealed that some older consumers (particularly the older old) are experiencing:

- **access barriers or challenges** when engaging with conventional retail financial products or distribution channels – for example, struggling to use telephone banking menus, automated processes, or security measures such as PINs and passwords
- **challenges in accessing or using retail products and services that are new or unfamiliar to them** – particularly when distribution models change, or new technology is introduced

The rapid pace of technological change and bank branch closures pose particular challenges for an ageing population. Firms have a key role to play in supporting consumers as they move to new products, services and technology. They can also consider how they can limit risks of financial exclusion.

This chapter sets out the findings from our case study and research on engagement with retail banking. We encourage firms to read this in conjunction with The Ageing Mind Report and the Coping Mechanisms and Third Party Access Report to understand the challenges older consumers face when they use financial services.

We recognise that consumers are often reluctant to disclose vulnerabilities or personal issues. This can make it difficult for bank staff to identify the issues, or engage with the consumer. To this end, firms might also find it useful to refer to the Practitioners' Pack that we published alongside *Occasional Paper 8: Consumer Vulnerability.* This was designed to help practitioners in developing their vulnerable customer policy or strategy, including tips and resources.[43]

As part of our Strategic Review of Retail Banking Business Models,[44] we are considering the impact of significant economic, technological, social and regulatory changes on the sector. This will include understanding the impact of increased use of digital channels and reduced branch usage on retail banking business models. It will also consider potential consequences for our consumer protection and competition objectives.

Banking preferences of older consumers

> **"Older people want what everyone else does: to get the financial products and services they need at a fair price, and to have open and transparent dealings with firms. Yet their needs and aspirations are likely to be different from younger generations, and the problems they encounter are different, too"**
>
> ***Sue Lewis on behalf of the Financial Services Consumer Panel***

The consumers that participated in the Coping Mechanisms and Third Party Access Report research shared a number of common needs and preferences:[45]

- most older people had simple day-to-day banking needs
- for many, access to cash was very important and helped older people feel calm and in control. It also gave them a sense of autonomy and independence
- there was a preference for face-to-face interactions[46] and reliance on a branch to undertake financial activities.[47] For those new to the internet, frontline bank staff often helped them with their first steps online

43 Occasional Paper 8: Consumer Vulnerability, Appendix 4: Practitioners Pack (2015): https://fca.org.uk/publication/occasional-papers/occasional-paper-8-practitioners-pack.pdf

44 Strategic review of retail banking business models, FCA (2017): https://fca.org.uk/publications/multi-firm-reviews/strategic-review-retail-banking-business-models

45 Whilst this research was conducted amongst a tightly defined group of older people, that is those receiving support with managing their day-to-day finances from a spouse, other family member or friend, the older people interviewed were very diverse. Whilst all were living with an age related condition, the nature of the condition varied and its impact on their ability to manage their day-to-day banking could be affected by a range of additional factors. These included their relationship with the carer, their past experiences, existing routines and their digital capability

46 This is supported by our Financial Lives Survey 2017 which showed that three in four (75%) of the 55 and over respondents with a day-to-day account have relied on a branch to undertake financial activities in the last 12 months (eg pay bills, deposit cash or a cheque)

47 53% of those aged 55 and over with a day-to-day account say they used a particular branch at least once a month in the last year, compared to 33% of 18-54 year olds. Those 55 and over who have paid for their bills in the last 12 months using their day-to-day account have a preference for going to a branch to pay their bills, with 33% of them doing so in the last 12 months compared to 13% of 18-54 year olds

- older people liked certainty overall and paying bills on time was a priority
- some needed help with payments, usually on an occasional rather than regular basis, for example, setting up a new direct debit or paying a one-off bill
- paper statements, receipts and mini-statements from ATMs were felt to be reassuring and helped some older people recall the actions they had taken
- older people had a strong preference for maintaining their existing and familiar routines. They and their carers believed that working within their existing routines helped prolong their autonomy and independence
- some older consumers were worried about the security of undertaking financial transactions online, including online banking. These concerns arose from publicity about fraud and breaches of internet security, and from older people doubting their own digital capability.[48]

The types and frequency of transactions change as people age. Older consumers interact with their account less than their younger counterparts, with the older old engaging the least. For example, our Financial Lives Survey 2017 showed that 92% of 18 to 54 year olds checked their account balance, compared with 68% of the over 85s. Older consumers are also less likely to transfer money, either to another account they hold[49] or to another person.[50]

Challenges with channels of engagement

> **"How can older people be expected to remember endless passwords and security processes? How can arthritic fingers deal with buttons on ATM machines or key account numbers into phones? For those able to get to a bank branch, how easy is it to pay and receive cash or make payments when old legs have to stand in queues and people then have to transact business over high counters with no privacy?"**
>
> ***Christine Farnish CBE, in foreword to 'When I'm 84: Locking the door on the older old – the challenge facing Britain's banks' by the Finance Foundation***

One of the main challenges reported by older consumers is that banking and payment services generally assume they have full physical ability and good eyesight, hearing and

48 The Financial Lives Survey 2017 showed that making transactions via any online services, for example online banking or a banking app, was considerably lower for over 55s compared to their younger equivalents. For online banking, 83% of under 55s used the facility, compared to 53% of over 55s

49 The Financial Lives Survey 2017 showed that 64% of 18 to 54 year olds transferred money to another account they held, versus 49% of over 55 year olds.

50 The Financial Lives Survey 2017 showed that 74% of 18 to 54 year olds transferred money to someone else's account, versus 47% of over 55 year olds

memory.[51] In some cases, this ends up restricting some older consumers from making effective use of the products they hold.

Unlike utilities regulators, the FCA does not have a specific responsibility to ensure access for all consumers, for example through universal service obligations. Yet under our statutory competition objective we have regard to how easy it is for consumers to access financial services. We also have to consider the impact of our policies and processes on different groups of the UK population, as set out in the Public Sector Equality Duty (Equality Act 2010).

For customers accessing UK financial services, firms must comply with the Equality Act in how they interact and communicate with vulnerable groups. This includes a duty to make reasonable adjustments so that all customers can access their services (unless an exemption applies).

Under our rules, we expect firms to make sure that they, and their communications, are accessible to consumers. This applies to all products, and includes non-interactive channels such as the internet.

We set out below the particular challenges older people face when accessing branches, ATM and chip and pin facilities, telephone banking and online banking.

Accessing a branch or using branch facilities

Many older people participating in the Big Window's research expressed a preference for branch banking. They liked the ability to speak with a member of staff, talk to people, and have the security of watching their transaction take place. In some cases, going to the bank branch appeared to be an important part of their daily routine.

The type of access barriers older consumers reported included:

- difficulty accessing a branch without help, or physically negotiating the internal environment due to mobility issues
- difficulty communicating with staff in branches due to Perspex screens, background noise, or a crowded environment
- feeling rushed, or struggling to use new automated services within the branch

Age UK's 2016 report on Age Friendly Banking[52] also confirmed that older people are sensitive to branch design. It included suggestions to optimise these services for older consumers, such as keeping main branch functions on the ground floor, avoiding playing loud background music, managing queues and providing comfortable chairs while waiting.

While many customers recalled positive experiences in their local branch, interactions with frontline staff varied. In some cases customers thought that staff didn't appear to be trained in recognising and dealing with age-related issues.

51 Age Friendly Banking, Age UK (2016) p 30: http://ageuk.org.uk/Documents/EN-GB/For-professionals/Policy/money-matters/report_age_friendly_banking.pdf?dtrk=true

52 Age Friendly Banking, Age UK (2016) p 11: http://ageuk.org.uk/Documents/EN-GB/For-professionals/Policy/money-matters/report_age_friendly_banking.pdf?dtrk=true

Frontline banking staff can often be the first step in identifying potential access barriers or challenges and communicating available options to customers. Given the breadth of some firms' remits, it may be impractical for all staff to be trained to deal with all the issues which they might face. However, staff can be trained to notice when a customer is experiencing difficulties. If appropriate, they can ensure that the customer is quickly referred to a specialist team.

One firm that shared information for our work on Vulnerability also discussed the role of emotional intelligence when it comes to training and recruiting front line and specialist staff.

Staff are trained to use the TEXAS model. The Royal College of Psychiatrists and Money Advice Trust developed this protocol to help frontline staff manage disclosures effectively, and to refer to specialist teams where necessary. These staff are encouraged to listen and look out for a wide range of clues, some of which may be subtle. This includes signs of agitation such as pitch, tone of voice and breathing, as well as indicators such as 'I've not taken my tablets'. Staff can move away from scripts if they have a gut feeling something isn't right. Training also involves role playing emotionally difficult situations.

To help with this, banks could consider creating safe environments and a culture where customers are comfortable to talk about their difficulties. Customers should also feel assured that banks will respond to their needs appropriately. Systems and processes could support front line staff in identifying specialist needs and appropriate options or referrals to support the customer.

Case study
One building society has introduced boxes across its UK branch network containing specific items and guidance notes for older consumers, including pen grips, magnifying glasses and cheque book templates.

The customer's profile can also be adapted so it's clear that they use the 'helping hand' service. The cashier will see this as soon as the customer provides their personal details.

An older person might need support in a branch if they are:

- appearing confused
- asking for help
- repeating a request
- asking for what appears to be the opposite of what they want or might need
- making a request that is unusual – eg asking to withdraw very large sums in cash
- coming in more often and taking out cash – eg forgetting they had taken out the day before or the same day
- coming in with someone who is helping them – eg linking arms to support them, speaking for them, or doing things for them)
- paying regular bills in the branch
- leaving money in an ATM
- leaving their card in the branch machine

Source: Coping Mechanisms and Third Party Access Report

ATMs or chip and pin devices

While many older consumers successfully used ATMs, others distrusted them and found them challenging, confusing and stressful. Customers also reported difficulties using chip and pin machines and other POS devices.

> **"The generation that she comes from, it's all about passbooks. So when it came to the ATM it was very difficult for her to grasp the concept that you just punch a few numbers in and your money will then be given to you. She was convinced her money would disappear if she pressed the wrong button"**
>
> ***Rena, Carer***

Many older people reported having trouble recalling their PIN, found the screen instructions operated too quickly, or had difficulty seeing or understanding them. Inconsistent layouts and processes between ATMs also made it more difficult to respond to instructions.

In a small number of cases, consumers lacked confidence in using ATMs, or worried that they may lose their money if they made a mistake.

Dexterity was often an issue where the consumer was suffering from arthritis or similar conditions. Others reported physical challenges when inserting their cards into the slots and using machines that had been lowered for wheelchair users.

"He couldn't understand the difference between a debit and a credit card so he would think of credit as being money he owned and he would take money out of the bank with a credit card. And he would eventually then use a debit card and get the money out to pay back the credit card."

Louise, Carer

Some consumers struggled to distinguish between debit and credit cards because of issues with eyesight. They also struggled to read numbers and other information on the cards. Carers supporting consumers living with dementia also reported situations when the consumer didn't understand the value of money in a specific transaction, or couldn't tell the difference between credit and debit cards.

Case study
One bank has introduced accessible debit and credit cards – including easily identifiable markings and different textures – to help blind or partially sighted customers to tell the difference between their credit and debit cards. They have also changed the shape of the card to help customers work out how to insert it into an ATM or PIN pad correctly.

The bank collaborated closely with the Royal National Institute of Blind People (RNIB) at the design stage. They did this to understand the potential accessibility issues, and ensure that the final amends were user-friendly and effective.

Telephone banking

Older people often find it more difficult to take in and remember information they hear rather than information they see.[53] Dealing with complex information or when in a noisy environment makes this worse.

This makes telephone banking a particular challenge, with older people reporting difficulties:

- going through long call menus, selecting options, and responding quickly to instructions
- hearing or understanding the call handler, or feeling rushed
- remembering numbers and passcodes and answering security questions – especially large amounts of them
- repeating what they've said – especially for those with memory and retrieval issues

Older consumers also reported situations where they had poor quality calls with call handlers. Some particularly disliked speaking to a machine. When phoning call centres, consumers thought that staff weren't flexible enough to give anything but stock answers or follow set procedures. Some customers also disliked having to phone

53 The Ageing Mind Report, the Big Window (2017) p 60 https://www.fca.org.uk/publication/research/ageing-mind-literature.pdf

national call numbers, and the fact they couldn't speak directly with a representative at their local branch.[54]

Possible situations on the telephone which might suggest an older person needs support include them:

- having a third party call on their behalf, or join them on the call
- having difficulty providing security information on the telephone
- having difficulty remembering passwords and numbers
- putting the phone down after showing confusion
- getting distressed on the call
- not remembering why they called

Source: Coping Mechanisms and Third Party Access Report

Potentially, more sophisticated automated Interactive Voice Response (IVR) technology can help overcome some of these challenges. Some banks are introducing a pause function into the telephony model, providing customers with time to think about information before making a decision.

For example, one bank has launched voice recognition technology to support telephone banking and customer service facilities. This allows those with memory issues to skip the normal password or memorable information step of the security process. This use of biometrics may be particularly useful for older customers and those living with dementia or other cognitive impairments. Firms could also consider how they balance ease of access with robust systems. This includes controls and security processes to make sure they deliver an appropriate degree of consumer protection.

Online banking

Customers who struggle with mobility issues or who no longer have a local branch could potentially benefit from online access to banking.

While customers can't take money out online, this is still an effective route for managing their account or payments. In some cases, it allows them to be independent for longer. However, the Coping Mechanisms and Third Party Access Report and stakeholder feedback shows that in some cases, older consumers lack confidence in their own capability. It also shows some don't have enough digital skills to successfully complete tasks online without help from someone else. We explore this further in the section on the impact of digitisation below.

Many older consumers are used to paying bills in their branch using cash and cheques. But decreased mobility, cognitive decline and local branch closures have forced many of these people to change their payment routines. Regular bills are now mostly paid by direct debit.

54 Coping Mechanisms and Third Party Access, the Big Window (2017) p 30 https://www.fca.org.uk/publication/research/coping-mechanisms-third-party-access.pdf

The Coping Mechanisms and Third Party Access Report suggests that carers often set up direct debits for older people. Many older people would not naturally use direct debit, as they are unfamiliar with the set-up process. This may explain why BBA research shows that older customers who use mobile and internet banking typically use it as frequently or only slightly less than younger generations.[55] Once direct debits had been set up, they were reported to work well for regular bills, providing a straightforward solution that met the needs of specific group of customers' needs.

Older people repeatedly showed concern over the security of internet banking. They found it very difficult to deal with the inconsistency of login procedures, and remembering passwords and other memorable details. These included using secure devices or two-factor identification. People with memory issues had particular trouble when trying to use code generator devices.

Other challenges to engagement

Technical language and jargon

Technical language and jargon can make financial products and services difficult to understand. This means people can't make informed decisions about financial planning.

Respondents to our Discussion Paper argued that information provided to older consumers should be direct, simple, avoid jargon and highlight key messages. This should help deliver easily understandable information and support informed decisions. This is supported by the findings of The Ageing Mind Report, which shows that older people often compensate for a decline in cognitive abilities by relying on existing knowledge, rather than acquiring new information or developing new skills.

In June 2015, we launched our Smarter Consumer Communications initiative[56] to help improve our understanding of the opportunities and challenges surrounding consumer communications in the digital age. We were particularly interested about whether the requirements that we place on firms to provide certain information to consumers prevented digital innovation that could improve the effectiveness of firms' communications. Ultimately we wanted to ensure that the regulatory framework:

- supports consumer communications that are clear and simple to understand
- encourages the use of new technologies to present things in ways that interest and engage consumers

In our October 2016 Smarter Consumer Communications feedback statement,[57] we announced several initiatives to help improve the regulatory framework for consumer communications. One of these initiatives was to develop and consult on new, non-Handbook guidance on consumer communications to encourage innovation while providing clarity on our rules and regulatory expectations. We intend to publish a

55 This data is based on 2014 figures from a range of UK banks, compared to 2013 ONS Population estimates. Table with the corresponding percentages of the UK population using internet banking by age band: https://bba.org.uk/news/press-releases/millions-of-silver-surfers-harness-mobile-and-internet-banking/#Vo_DzvmLS9I. The BBA's Way We Bank Now work: https://bba.org.uk/landingpage/waywebanknow/

56 DP15/5 – Smarter Consumer Communications, FCA (2015): https://fca.org.uk/publication/discussion/dp15-05-smarter-consumer-communications.pdf

57 FS16/10 – Feedback Statement: Smarter Consumer Communications (2016): https://fca.org.uk/publication/feedback/fs16-10.pdf

consultation on this guidance before the end of 2017. We have also taken a number of other steps to address issues raised by firms. These include:

- consulting on amendments to some of the disclosure-related rules and guidance in our Handbook to allow firms to take a more targeted and proportionate approach
- publishing a webpage explaining the 'durable medium' concept as a result of technological developments
- holding a roundtable with the industry and consumer representatives to discuss how we could work together to improve terms and conditions

Firms should also note that Principle 7 requires firms to 'pay due regard to the information needs of their clients' and to 'communicate information to them in a way which is clear, fair and not misleading'. This is particularly challenging when consumers have different needs to the 'mainstream'. The proposed guidance we will be consulting on as part of the Smarter Consumer Communications workstream is intended to set out some ways firms can do this.

Bank branch closures

The House of Lords Select Committee on Financial Exclusion recognised that the growing number of bank branch closures is contributing to financial exclusion, particularly for vulnerable customers who experience difficulties accessing alternative services.[58] These vulnerable customers include older people.[59] The number of bank branches in the UK has more than halved since 1989,[60] with this trend likely to continue as part of a broader shift in society to internet and mobile networks.

This creates a key challenge – how can firms maintain customer-friendly services for those who rely on branches that are closing, but who don't want to, or can't, move to internet or mobile banking?

It is important that banks, consumer groups and Government work with consumers and communities to minimise the impact of branch closures. Industry has made efforts to do this via the Access to Banking Protocol and more recently the Access to Banking Standard. The Standard is a voluntary initiative that applies to branch closures announced after 1 May 2017. It aims to ensure that customers are better informed when a branch closes, the reasons for it, and they are made aware of alternatives channels such as online and mobile banking. They should also be told how and where they can obtain further information, as well as help and assistance in deciding how they might use or access it. We encourage firms to continue to develop their branch closure processes and encourage further independent evaluation of their efforts in future.

58 Tackling financial exclusion: A country that works for everyone? House of Lords Select Committee on Financial Exclusion (2017): https://publications.parliament.uk/pa/ld201617/ldselect/ldfinexcl/132/132.pdf

59 Tackling financial exclusion: A country that works for everyone? House of Lords Select Committee on Financial Exclusion (2017) Paragraph 155: https://publications.parliament.uk/pa/ld201617/ldselect/ldfinexcl/132/132.pdf

60 Bank Branch Closures, Federation of Small Businesses (2017): http://fsb.org.uk/standing-up-for-you/policy-issues/finance-and-the-economy/bank-branch-closures

Impact of digitisation

> **"With the spread of smart devices and the rise of mobile and digital banking services, it is necessary to constantly test, learn, evolve and adapt communications to respond to changing consumer behaviour and the needs of the UK population. In doing so, there is a balance to strike between providing the right needs-based support and avoiding making wholesale or stereotypical assumptions about capability, or circumstances, based on people's age."**
>
> ***Eric Leenders, Managing Director, Retail and Commercial Banking, BBA***

As retail banking changes to take advantage of new technologies and ways to engage with consumers, it is important that older consumers aren't left behind. While technology and innovation can bring benefits to firms and consumers, digital exclusion should not automatically lead to financial exclusion.

Several responses to our Discussion Paper showed that the older old were particularly at risk of financial exclusion because of their inability or reluctance to use technology. Others noted that although the older old will have greater technology experience in future, their needs and ability to carry out day-to-day financial transactions may always be different to the needs of younger age groups because of the impact of natural cognitive and physical decline. It can also become more difficult to keep up with technological changes from outside the workplace, especially if not inclusively designed.

However, banking technology can complement, and improve, traditional communications and services which appeal to older customers. We welcome the use of fintech to promote access and reduce barriers. For example, the introduction of voice or facial recognition and biometrics in banking could promote both digital and financial inclusion. This could help overcome some identification and verification challenges and the need to remember complex passwords or information.

Consumer case study
Anne is 75 years old. She accesses the joint account that she shares with her husband using an app on her mobile phone. The app allows Anne to clear security using fingerprint technology.

Although Anne was initially nervous about using the app, she liked the additional security that the fingerprint access allowed. She reported that the staff at her local branch had talked her through the app and that she'd returned a couple of times when she had questions:

"I was terrified of it at first. I didn't like it at all, I thought I wouldn't use that, I'd still go back to the branch. And I went back a few times just to get them to go over it again, but once you got it up and running it's fine. It's like everything else, the more you use it, the easier it is."

Although Anne did not initially feel confident in using this type of digital technology, she made a successful transition when provided with appropriate support. The branch staff played a key role in helping her to build confidence and capability.

The BBA highlighted a number of innovative approaches in their article in our Discussion Paper. The article highlighted that:

- some larger banks use video technology to allow customers to talk to staff face-to-face remotely on their smartphone, tablet or personal computer wherever Wi-Fi is available
- other video conferencing services being piloted allow customers to patch in friends/ family or professional advisers
- video or graphical approaches are also increasingly being used to augment the more traditional means of disclosure and make the information and messaging clearer and simpler
- smart ATMs allow the customer to connect to a customer service advisor in real time to support their transaction and provide help or support

Case study
One building society is launching iris recognition for their customers who own a Samsung S8 or S8+ to log into their account on the mobile app. These customers won't need to input a user ID and password to access an account.

The firm already allows customers who have the technology to use either a password or fingerprint to log into their account. The advantage of both fingerprint and iris recognition over the traditional letter and numerical password is that those with cognitive impairments do not have to remember or recall information in order to access their accounts.

An individual's iris has 266 unique characteristics compared to 40 for fingerprints. It is potentially a more secure method of accessing online services. Also, people who struggle to use their fingers may find it easier to use an iris scan. The range of security options allows the consumer to retain control. It also allows a range of consumers to access their individual accounts in a way which meets their needs.

These technological solutions could benefit many consumers who are willing to adopt new technology and overcome their concerns about internet safety. It could also support those who are building digital skills and capability. Firms could consider the needs of their older consumers when developing distribution channels or moving to new technology. This could include considering the extent of any support required to help consumers move to new ways of engagement, or whether the firm needs to adapt or keep particular access channels for those who are dependent on them.

The FCA piloted our first TechSprint event in April 2016 which sought to identify potential solutions to access issues in financial services, working with the technology industry to develop ideas or proof of concepts to address access issues.[61]

Human interaction remains important for consumers at any age. It may have a role in many customer journeys, even in a future that may be increasingly reliant on artificial intelligence.[62] Human interaction can be especially beneficial for customers who have specialist needs such as dementia.

We welcome action by firms to provide specialist support to consumers who may need more support, empathy and consideration. This could include providing a dementia-friendly physical branch environment. It could also include having specialist phone lines dedicated to providing support for more complex customer issues such as bereavement and Power of Attorney.

Certain consumer groups may find automated systems particularly difficult. Firms may wish to consider how they can identify those who are finding a specific transaction or interaction particularly challenging. They could take steps to remove them from standard processes, providing specialist support or interaction to help resolve their query.

Key issues and ideas to consider

> **"Financial products and services constantly evolve to cater to the demands of their target markets. An ageing UK population may very well lead to further opportunities to engage with older consumers; not everyone will want to harness new services, but it's vital that no one feels excluded from easy-to-use technology, and that banks continue to give all the support they can to those who want to learn how to join."**
>
> ***Eric Leenders, Managing Director, Retail and Commercial Banking, BBA***

In this chapter, we examined some of the current barriers that older consumers face when accessing and engaging with retail banking.

61 See: https://fca.org.uk/firms/innovate-innovation-hub/regtech

62 See, for example, the Social Market Foundation's report, 'Balancing Bricks and Clicks (2016)', which found two-thirds of UK consumers to make complex decisions face-to-face with firms, regardless of age: http://smf.co.uk/publications/balancing-bricks-click-understanding-how-consumers-manage-their-money/

Some of these are because of normal aspects of ageing, such as loss of hearing, sight or mobility, or changes in cognition. Others relate to challenges with responding to change, including lack of access to commonly used communication channels, communications not designed for the needs of older people, and changes to the way banking services are delivered (and the speed at which these changes are happening).

This means that as people get older, everyday banking tasks that we take for granted – using bank cards, reading statements, and talking to cashiers and call handlers – can become more difficult. New products and distribution channels are changing how consumers and firms interact. It is essential that firms deliver these transitions in a sensitive and supportive manner.

There are many things to consider when trying to create a supportive banking environment for older consumers. These include the physical environment, systems and controls, product and service design and customer service. This needs to be supported by a detailed and nuanced understanding of the diverse needs of older consumers, including those with more specialist needs or who are experiencing vulnerability.

We recommend firms consider Age UK's recommendations in their *Age Friendly Banking Report* when thinking about how they can support older consumers.[63] Specialist third sector partners and subject matter experts may also play an invaluable advisory role at early stages of the design process. A number of firms also seek critical challenge from third sector partners when designing and developing new retail propositions. Firms told us that this has helped identify particular access barriers or challenges that may arise for consumers with more specialist needs. It also resulted in changes to the relevant product or service. Recommendations have also influenced how firms have communicated and engaged with customers.

Case study

One high street bank announced a three year partnership with the Alzheimer's Society and Alzheimer Scotland. The partnership is designed not only to support the charities, but also launch 'Dementia Friends' information sessions for staff as well as an advice guide for customers living with and caring for those with dementia. This takes form in a 'Managing your money with dementia' guide.

As well partnering with the Alzheimer's Society and Alzheimer Scotland, the bank is also working to improve products, services and premises, as well as improving the website to ensure it is accessible for those living with dementia.

The Ageing Mind Report contained recommendations for firms to help support older consumers when engaging with retail banking using different channels. We have summarised these below:

63 Age Friendly Banking: What is it and how you do it, Age UK (2016): http://ageuk.org.uk/Documents/EN-GB/For-professionals/Policy/money-matters/report_age_friendly_banking.pdf?dtrk=true

Branch environment	• Branches should be welcoming, familiar and well-structured without time or environmental pressures • In-branch areas which are quieter and/or private to allow more time to think and process information • Familiar and recognisable signs in an environment which is well lit, organised and considerate of visual impairments • Clocks and support materials to aid activities and decision-making
Frontline staff	• Staff should be equipped and motivated to offer older customers the support they need for all of their banking and financial tasks • Front line staff, in branch or on the telephone, are trained to recognise and support the needs of those who are experiencing cognitive changes or impairments • New engagement channels can be promoted and older customers supported to help customers use them
Cash and purchase equipment	• Providers could review how to provide older consumers with easy to use cash and purchase equipment such automated teller machines ('ATMs'), point of sale ('POS') machines and payment (debit and credit) cards that are consistent with enabling positive transaction experiences irrespective of age or ability • Ensuring greater consistency between ATMs and POS machines, that are built around access as well as clarity and comfort of use • Developing debit and credit cards that are easy to handle and readily distinguishable from each other
Digital interfaces and technologies	• Interfaces and technology should be developed for older consumers who experience cognitive decline • Rather than be designed in isolation, human interfaces (and preferences for human interactions) and 'Fintech' advances must go hand-in-hand • Continual reviewing and designing of branches around the needs of older customers • Technology and digital strategies should be developed to meet older consumers' needs. This includes building their needs and expectations into the governance structure that surrounds the development of websites, web-based products and online customer journeys
Channel strategies	• Firms should consider older consumer preferences and their changing cognitive abilities when designing channel strategies • Telephone-based services might not facilitate ease of information processing for older consumers, particularly when significant cognitive changes occur or cognitive impairment is evident. Automated services which require remembering information at the same time as processing information can be difficult or impossible for some customers • Channel strategies should take into account the mental effort required to hear information rather than see or read it. It should also consider the mental effort required to learn something new rather than be guided through it step by step. Finally, it should think about the mental anxiety caused by feeling under pressure to get things right first time in a short time period

Products and services	• Firms should specifically design and test products with older consumers in mind. This is true both for the type of products/services offered (eg insurances available for older age groups, long-term care funding, life time access to loan equity) and how products/services are communicated and delivered to consumers • Older consumers are likely to be expected to interact with more complex or even new product terms more frequently and later into their lives. As a result, providers should consider what is needed to guide and support those consumers. This includes what will make the communications and support surrounding longer-term products less complex and more familiar to consumer - aiding their processing and decision making
Decision (or processing) aids	• Decision aids support older consumers, especially those experiencing cognitive change. They help people recall and process what they have heard, and people make better decisions • Providers could consider what they could offer older consumers to compensate for difficulties with remembering information and taking in new information • Firms may wish to offer customers structured note-taking sheets with each new product or service. This could help them to remember and recall information • Firms could build in feedback loops to provide summaries of what has been agreed to during interaction with providers. Firms could then send these summaries to consumers by email or in hard copy. These summaries could also appear before consumers log off from their online accounts

4 Third party access and planning ahead

- Over 2.6 million people have Lasting Powers of Attorney (LPA) registered with the Office of the Public Guardian (OPG) in England and Wales.[64] In 2016/17, 648,318 LPAs were registered, an increase of 18% on the previous year.[65] However, problems with engagement often result in a significant number of older consumers resorting to workarounds to make financial transactions. A lot of the time these 'coping mechanisms' may not meet the needs of the older person and their carer.
- Options for third party access are crucial for those who rely on others to help them manage their money. Firms are beginning to improve processes for setting up and registering third party access arrangements. However, there is scope to improve the customer and carer experience and outcomes in this space.
- Government, industry and consumer groups all have a key role to play in ensuring that people are aware of their options and opt for one that will fully meet their needs through improved systems, processes and communications.

Introduction

Consumers should be supported to manage their money themselves autonomously for as long as they can. However, as explored in our previous Chapter, some consumers may struggle with conventional channels. This means they may need support from someone they trust, like a relative or friend with caring responsibilities.

In the longer term, we would like to see products and services which as many consumers as possible can use. In the short to medium term, it is important to improve current mechanisms for effective third party access. Third party access plays a critical role for consumers who can't manage their money by themselves.

Consumers need to be able to manage their money more easily and safely through a trusted third party. Whilst demand for LPAs is growing, the associated challenges are complex. For example:

- some LPAs may be registered but not in use
- the nature of some LPAs may be difficult for firms to operationalise
- an LPA may not meet a particular consumer need
- it can be hard to share or give control of your finances to someone else, so consumers tend to put it off till the last minute

64 Data provided by the Office of the Public Guardian, accurate as at 11 July 2017.
65 OPG Annual Report and Accounts 2016/17 (2017): https://gov.uk/government/uploads/system/uploads/attachment_data/file/630469/OPG-Annual-Report-2016-17-print-version.pdf

Currently, firm processes and systems don't appear to be optimised for enabling third party access. This makes it hard for consumers to allow a trusted friend or family member to legally help them manage their money. There are opportunities to help overcome some of these challenges and improve the consumer experience.

We commissioned the Coping Mechanisms and Third Party Access Report to understand the steps older people and their carers take to manage their access to retail banking services. The research found that older people and their carers experience problems using retail banking services effectively. It also shows that many consumers are resorting to informal 'coping mechanisms' to navigate third party access.[66]

We have been working with stakeholders to understand how financial services can better support people who need to arrange third party access to their money. We have focused on retail banking and older people, with the understanding that our findings could have wider application for other financial sectors and segments of society. Based on what we found, we encourage all relevant financial sectors to examine their third party access arrangements for consumers, to explore how to reduce consumer harm.

Reliance on coping mechanisms

All too often, older consumers who need support rely on informal workarounds or 'coping mechanisms' to manage their day-to-day finances. For example, it is not unusual for older consumers to share their PINs, passwords and delegate online banking tasks to a loved one who takes on the role of their carer. 37% of adults aged 85 and over have shared their personal bank details with someone else, typically a spouse, family member or friend.[67] This number is even higher amongst carers of someone with a mental health problem, with over half knowing someone else's PIN number.[68] However, these informal workarounds leave people exposed and vulnerable to financial abuse and harm. Whether it is for emergency purposes or to support medium to long term situations, such as travelling abroad or living with dementia, safe third party access is critical for consumers who need the help of a friend, relative or trusted carer.

The Big Window's research found that an LPA offered peace of mind for people who had put the arrangement in place. However, there was a general lack of awareness regarding LPAs and confusion around formal third party access options.[69] Formal mechanisms for third party access include: an Ordinary Power of Attorney, LPA, DWP Appointee, Court of Protection Order (also known as a Deputyship Order) or Third Party Mandate. There are also variants in Scotland and Northern Ireland.

66 Coping Mechanisms and Third Party Access Report, the Big Window (2017) https://www.fca.org.uk/publication/research/coping-mechanisms-third-party-access.pdf

67 Financial Lives Survey 2017

68 Strength in numbers: consumers, carers and financial services, N. Murray, Money and Mental Health Policy Institute (2016): http://moneyandmentalhealth.org/wp-content/uploads/2016/11/Strength-in-Numbers-report.pdf

69 Coping Mechanisms and Third Party Access Report, the Big Window (2017) https://www.fca.org.uk/publication/research/coping-mechanisms-third-party-access.pdf

What is a Power of Attorney?
In England and Wales, a Lasting Power of Attorney (LPA) (or an enduring power of attorney if put in place prior to 1 October 2007) is a legal document that lets you (the 'donor') appoint one or more people (known as 'attorneys') to help you make decisions or to make a decision on your behalf. You must be 18 or over and have mental capacity (the ability to make your own decisions) when you make your LPA.

There are two types of LPA: an LPA for property and financial affairs and an LPA for health and care decisions.

An ordinary Power of Attorney is a legal document that lets a donor appoint one or more attorneys to make decisions on your behalf only while the donor has mental capacity. An LPA for financial decisions can be used while you still have mental capacity or you can state that you only want it to come into force if you lose capacity. (A health and care LPA can only be used once you have lost mental capacity.)

In Scotland, the equivalents are known as a general power of attorney or continuing power of attorney. In Northern Ireland, the equivalents are known as a power of attorney or an enduring power of attorney.

What is a Third Party Mandate?
A third party mandate is an agreement between one bank and a customer which allows a named person (the 'third party') to access an account on the account holder's behalf. It may be suitable if the account holder needs help to manage or access their account. For longer term arrangements, a power of attorney or a court order may be more appropriate.

The Big Window's research found that carers often assume that being granted permission by their loved one to have access to confidential PINs and passwords somehow legitimises the arrangement. However, people often drift into informal arrangements rather than consciously choose to use them. These workarounds are founded on implicit trust or assumed necessity. Among some consumers we researched there was also a degree of discomfort about using informal workarounds. Stakeholders have also noted that in some cases, older consumers may no longer have appropriate support networks in place and may establish third party relationships out of necessity rather than trust. Both groups of consumers may not be aware of the additional risks that these arrangements can trigger, including potential financial abuse.

The Big Window's research found that people worried about starting conversations about formal, legal arrangements. They didn't want to imply mistrust in existing informal arrangements between the carer and older consumer. Many carers were also keen for the older person to maintain a sense of independence, dignity and autonomy.

> **"I want my husband to be the man of the house for as long as he can. I do enough already; my role has changed significantly and to take out LPA is almost taking another bit of him away and I don't want to do that."**
>
> ***Sally, Carer for her husband Graham with early onset Alzheimer's***

In some cases, research participants adopted coping mechanisms even if they had an LPA in place. This sometimes happened because it was convenient. Some customers found it necessary because the bank could not provide a suitable service to meet their needs.

Consumer case study
One older person appointed his two daughters as attorneys (with permission to make decisions jointly and severally). However, the bank was only able to issue a single debit card, resulting in one of the attorneys being able to provide limited support, and needing to initiate complex informal arrangements to transfer and withdraw money on the customer's behalf).The bank's systems were restricted, and the informal workarounds were easier, quicker to navigate and essential to provide the customer with appropriate support.

Older consumers also often have a strong preference for maintaining their existing and familiar routines. This preference is often rooted in the belief that working within their existing routine helps prolong autonomy and independence.[70] For further detail on the research findings, see the Coping Mechanisms and Third Party Access Report. The report includes the Big Window's suggestions on how firms and others can consider developing their products and services to reduce the risk of customers adopting informal workarounds.

This common use of informal workarounds is partly due to how easy and straightforward it is to hand a trusted person a debit card. Consumers can end up relying on this workaround by default, rather than going through the process of deliberately deciding to delegate access to a third party, having explicit conversations about sharing (and potentially handing over) control of their finances, or researching legitimate arrangements that may cost time and possibly money. However, consumers may not realise that they put themselves, their carers and firms at risk by sharing confidential PINs and passwords.

Stakeholder feedback indicates that firms, trade bodies and consumer groups can play important roles in raising awareness of legitimate options for third party access. This would need to be balanced with appropriate communication explaining when this will be appropriate, and how to stay safe. The Big Window's research suggests that the existing suite of third party options are often not well understood by consumers and do not always meet their individual needs. Options need to be as straightforward as possible to enable consumers to adopt them, while ensuring that processes are secure and robust.

70 Coping Mechanisms and Third Party Access Report, the Big Window (2017) https://www.fca.org.uk/publication/research/coping-mechanisms-third-party-access.pdf

"There are over nine million unpaid carers in the UK, many of whom assist the people they are caring for in some aspect of the financial affairs, for example withdrawing cash, paying bills or buying shopping. Quite often this is managed informally by means of lending a debit card along with its PIN number, creating a security risk and breaching the terms and conditions of use. Banks have begun to realise they need a more sophisticated suite of solutions for carer banking, to fill the space between the debit card and a Lasting Power of Attorney."

Jane Vass OBE, Director of Policy and Research at Age UK

Improving the consumer journey around third party access

Feedback from stakeholders is that there is scope for the financial services industry to make it easier for older people and their carers to set up and use third party access arrangements. Improvements to third party access processes are technologically possible, with room for firms to improve the efficiency of their processes. If firms can develop straightforward options to facilitate legitimate and legal delegated access for carers, whilst maintaining robust safeguards to reduce the risk of abuse, we would expect this to reduce the reliance on PIN and password sharing.

Based on what we found from speaking with subject matter experts and consumer research, we found there is low consumer awareness of Third Party Mandates. They considered that there is more firms can do to provide information about third party access options available to their customers. This includes providing clear information at the right time, and targeting both older customers and their carers in a consumer friendly way. The technical and legal language that surrounds third party access arrangements also makes them appear intimidating and builds the perception of complexity amongst consumers.

While the focus of our work has been on retail banking, there may be opportunities to improve third party access in retail investments. Stakeholders told us that firms could play a role for firms in considering how they treat and onboard the carers managing money on behalf of a client. Potentially, there may be attorneys with no prior investment experience who suddenly become responsible for managing a donor's investment portfolio. In this case, the attorney may be ill-equipped to act genuinely in the donor's best interests (as per the power of attorney agreement), and it may be helpful to consider the implications of this and explore whether there are opportunities to improve support for the attorney.

The Government also plays an important role in delivering effective third party access arrangements. We would like to see the OPG and other authorities in the devolved administrations develop more customer-friendly approaches to setting up, registering, storing and understanding LPAs. While LPAs can be registered online, they require physical rather than digital signatures, and once complete, consumers need to take certified hard copies (or the original copy) to get them registered with individual financial institutions. While the paper element of LPAs may be preferable to the current generations of older consumers and arguably reduces risk of fraud, in the longer term, creating a secure, centralised online database of registered LPAs could reduce administrative pressures on firms and carers by removing the need for physical paperwork, and reduce the length of time it takes to set up LPAs. This needs to be carefully balanced with consideration of potential risks of digital exclusion and cybercrime. Consumers who are less comfortable with digital interfaces need to be able to engage fully, regardless of their technological abilities.

We welcome the OPG's plans to conduct an awareness raising campaign later this year and research to improve its online LPA form. However, in light of increased digitisation and increase in numbers of products, services and providers being accessed by individual consumers, there is also a need for broader, longer term initiatives and innovation. This could include development of a secure, end-to-end digital LPA registration system and database that is fit for purpose now and as LPA numbers continue to grow supported by an appropriate arrangement to facilitate paper-based alternatives for those reliant on them. In addition, much more could be done to normalise the concept of delegating access and understand how best to engage people with this process.

Stakeholders have suggested that firms and other trusted third parties could also play an important role here. This could include running promotional campaigns, signposting initiatives, or nudging consumers to plan ahead. Activity could also be targeted at those who are currently supporting an individual, or see themselves doing so in the future.

Stakeholders have also suggested firms need to think carefully about the different approaches that could be considered for customers experiencing short, medium and longer term needs for third party access or support. Flexibility that doesn't undermine important safeguards may be appropriate in the case of an emergency or short term need, for example to allow a third party to pay an emergency bill to prevent a customer from going into debt.

Consumer case study

Mark was given little help from the bank when managing his mother's finances while she was ill in hospital. Prior to her becoming very ill, his mother managed the household finances for herself and his father. But recently, while she was in hospital, Mark had assumed that role. They have no formal arrangement in place. When Mark was managing his mother's finances, the bank would only speak to him on the telephone if his mother gave her authorisation so he had to take the telephone to the hospital and make the same call from there:

"When she was in hospital I had to go up to the hospital with the mobile phone just so that they could hear her voice saying that she gave me permission to act on her behalf. You think there would be some way around that when people are in hospital to allow people to act on their behalf. They never spoke to me about a way around that."

Improving customer experience and outcomes

As the size of the older population continues to increase, the risk of poor customer outcomes from reliance on coping mechanisms and challenges using formal mechanisms will continue to grow. For this reason, we encourage firms to take action to address this proactively, to prevent demand becoming unmanageable.

As part of the commitments from the BBA's Vulnerability Taskforce report,[71] the BBA (now UK Finance) is aiming to improve banks' processes for setting up and registering third party access arrangements. On 2 June 2017, eight of the UK's biggest high street banks and building societies[72] agreed to implement a new set of third party access principles designed to help improve the customer experience and outcomes.[73]

The UK Finance Principles relate to banks' processes for registering and operating under legal instruments that can be used to enable third party access in the UK. In summary, the principles are that participating institutions will:

- provide consumers with clear, simple, and easily accessible information about options that are available
- make sure that the firm's requirements and process involved to access options available are transparent, and available to consumers and colleagues through a variety of channels
- provide support to meet consumers' needs throughout the process
- be transparent about the limitations of usage of our products or channels by third parties. The firm will not present any unnecessary barriers to third party servicing and transacting
- make sure that once a consumer has been in touch, they will notify all relevant points
- ensure the firm consistently provides the best possible service for those who require options for authorising a third party to access their accounts or information about their accounts[74]

UK Finance is also exploring what an industry wide framework for a third party mandate might look like and under what circumstances it could be applied.

We encourage firms to explore how they might improve third party access for carers and to consider how they could use technology to enable this. This may include developing more personalised banking services in the future. For example, modular accounts which make it straightforward to grant (and remove) different permissions and levels of access for different people. The second Payment Services Directive (PSD2), which will be implemented by January 2018, will open up access to certain account information to third parties, such as account aggregators. As technologies are developed to facilitate PSD2 access, it is possible that the same technologies might be used to offer innovative solutions to grant carers access to accounts.

71 Improving outcomes for customers in vulnerable circumstances (2016): https://ukfinance.org.uk/vulnerable-customers-report

72 Bank of Ireland, Barclays, Capital One, HSBGC, Lloyds Banking Group, Nationwide Building Society, Natwest, RBS and Santander UK have signed up to the Principles, with the majority of participating institutions aiming to fully implement changes by May 2018.

73 Principles to Improve Customer Access (2017) https://ukfinance.org.uk/wp-content/uploads/2017/09/Principles-to-improve-customer-access.pdf

74 ibid

Measuring success

The FCA encourages UK Finance to measure and assess transparently the effectiveness of the third party access principles 12 to 24 months after their publication. We welcome initiatives to support consumers who need third party access. Other relevant financial sectors and trade or professional bodies may wish to consider gaps in third party access provision.

We recently consulted on proposals to require banks and building societies to publish information about current account services (CP17/24). The proposals seek to make it easier for customers to access and assess information about providers' service, including information about organising third party access to a Personal Current Account under a power of attorney. The information we have proposed to require firms to publish includes:

- when help is available from a suitably trained person so that a customer can ask and receive a question about third party access via a power of attorney
- what information and documents are required to apply for third party access under a power of attorney
- how long it takes to organise third a party access to an account

Balancing protection and access

We realise that it can be challenging for firms to balance consumer protection and access, given the risks of scams, fraud and financial abuse. While the use of informal coping mechanisms such as PIN sharing expose consumers to financial abuse, we realise that there are also financial abuse risks associated with LPAs. Consumers need to understand the benefits and risks of different types of third party access options available to them, and make informed decisions about who they delegate financial decisions to.

Organisations have existing duties and responsibilities under the Mental Capacity Act 2005. Whilst this provides a foundation for serving customers with mental health challenges, we recognise that the very nature of mental capacity can raise challenges for firms, particularly in terms of assessing capacity and balancing statutory requirements, risks and specific customer needs. Capacity may also fluctuate depending on the specific customer circumstances.[75]

The Money and Mental Health Policy Institute highlighted the need for clarity about when carers and family should have access to confidential financial data, for example during an emergency when the account holder is not in a position to make urgent financial decisions. Firms may struggle to balance competing requirements to facilitate access flexibly to meet the unexpected needs of the carer, while remaining compliant with data protection and security policies designed to prevent unauthorised access

75 The Money and Mental Health Policy Institute is actively considering the challenges arising and working with providers to influence development of new tools, setting and process to help customers with mental health problems manage money successfully across multiple aspects of financial services. See: www.moneyandmentalhealth.org/best-practice/

to accounts.[76] To respond to this challenge, it may be helpful for firms to consider working collaboratively, for example with their trade bodies and the Information Commissioner's Office, to clarify problematic scenarios and develop best practice in this area. Consumer groups may also provide valuable insight into situations or risks arising, and potential barriers to embedding as well as critically challenging firms to be aspirational when developing best practice.

Other respondents suggested that firms should be more sensitive, flexible and innovative to those providing assistance to older people and accept limited levels of delegation to carers granted by older consumers. A number of initiatives to expedite third party access were cited, but some respondents advised that making arrangements easier for the consumer also required careful management of the risk of carer fraud. Some respondents encouraged the FCA to explore how the industry can manage the carer relationship and support and protect older people. Several responses referred to difficulties with some older consumers 'in denial' or unwilling to hand over access.

Promoting the benefits of planning ahead

Planning ahead is an important dimension of financial capability which some consumers can find challenging. Older people need to consider their day-to-day needs to make ends meet, while planning for, and managing expenditure related to life events. Life events that typically affect older people, for example ill health, care needs and bereavement, can be unpredictable and may derail financial plans overnight.[77]

It can be daunting for anyone to consider who they might share or hand over financial control to in the event that they may need support. In particular, people at risk of losing mental capacity may find delegating financial control particularly challenging. The complexity and uncertainty of this financial need is an additional barrier to setting up formal third party access. 61% of those surveyed by the OPG were not very or not at all interested in setting up an LPA for themselves in the future. Of those, 40% cited attitudinal barriers, for example, not believing they will lose mental capacity, not caring what happens if they do, or not wanting to tempt fate. While many were familiar with planning for death, and had made wills and, in some cases, made arrangements to pay for funerals, very few had imagined they might lose mental capacity.[78]

People can find it harder to picture themselves as older. They often discount the future in favour of immediate gains. A series of experiments conducted at Stanford University found that people who view age-progressed photos of themselves often consider allocating more money to retirement accounts.[79] They are likely to feel more connected with their future self and therefore be more motivated to save for the future. Such behavioural techniques might help people to emotionally engage with the future and avoid putting off planning ahead.

76 Strength in Numbers: consumers, carers and financial services, Money and Mental Health Policy Institute, November 2016, http://moneyandmentalhealth.org/wp-content/uploads/2016/11/Strength-in-Numbers-report.pdf

77 Older People In Retirement, Financial Capability Strategy for the UK (2017): https://fincap.org.uk/older-people-in-retirement

78 The Future of Lasting Power of Attorney, A research report for the Office of the Public Guardian (2014) pp 19, 26, 29: https://gov.uk/government/uploads/system/uploads/attachment_data/file/358560/OPG_LPA_Ipsos-MORI_Nov_13.pdf

79 Increasing Saving Behaviour Through Age-Progressed Renderings of the Future Self, Journal of Marketing Research, Hershfield, Goldstein et al. (2011): http:// dangoldstein.com/papers/Hershfield_Goldstein_et_al_Increasing_Saving_Behavior_Age_Progressed_Renderings_Future_Self.pdf

Stakeholders have told us that decisions to delegate access to someone else tend to be left until the last minute. This is often triggered by a life event and during times of emotional distress for both consumers and their delegates. These last minute decisions can result in proper arrangements being set up too late causing delayed access to money. This is because it can take months for paperwork to be processed, and requires a number of complex actions. Consumers may also lack the capacity they need to start an appropriate arrangement. They may also not be aware that they need help. This causes more delay while they pursue relevant legal routes.

Given the number of barriers to setting up LPAs, this underlines the importance of having alternatives, such as Third Party Mandates. These enable people to set up legitimate, short to medium term third party access for straightforward banking transactions. If a consumer no longer has mental capacity to delegate access to a third party, the Court of Protection may need to become involved to determine mental capacity, make an order relating to the health and care decisions or property and financial decisions of someone who lacks mental capacity and appoint someone to make decisions on behalf of someone who lacks capacity. This process can be lengthy and costly.

Consumer case study
Leanne's parents went into a care home in June 2015. Her father died in December 2015. She had to sell her parents' bungalow and the money is now being used for her mother's care fees. Her mother has dementia and is not aware of her own condition:

"I feel that I'm my mother's voice. While I don't physically care for her, I have to care for her affairs and make sure that she is being looked after."

Her parents never discussed any of their financial affairs with her – they were 'quite secretive'. She only recently found out they had equity release on their bungalow. Her mother doesn't look after any of her own finances now. There is LPA in place and Leanne pays the care bills and handles the account. Her mother doesn't have to handle any money in the home.

To encourage planning ahead and to promote the benefits of making arrangements for third party access, we are calling for the Money Advice Service (and its successor body, the Single Financial Guidance Body), the OPG (and its equivalents in Northern Ireland and Scotland), and others to promote third party access options. Encouraging consumers to change behaviour is difficult, so it is important to understand triggers which enable engagement. The earlier that consumers know about options to arrange third party access and the potential consequences of not doing so, the less likely they will be to find themselves requiring emergency access to money, for example to pay an important bill whilst a loved one is undergoing emergency surgery.

Stakeholders have fed back that firms and the Money Advice Service (and its successor body, the Single Financial Guidance Body) could provide consumers with enhanced information regarding issues such as the fraud and scam risks they expose themselves to by relying on PIN and password sharing, the inability of 'next of kin' to hold automatic rights to decision making, and the impact on joint account holders.

Key issues and ideas to consider

Issue	Ideas to consider
Improving the customer journey	• Firms and their industry groups could consider making it easier for older people and their carers to set up and use third party access arrangements safely. Firms and trade bodies could examine potential gaps in third party access arrangements for consumers across all sectors, to explore how to reduce consumer harm • We welcome broader, longer term governmental consideration of the benefits of creating an end-to-end digital LPA system and centralised database. This system might need to be scalable as LPA numbers continue to grow, whilst maintaining paper-based alternatives for those reliant on them
Industry wide framework	• We welcome UK Finance's (formerly the BBA's) third party access principles and plans to consider an industry wide framework for a third party mandate. We urge UK Finance to assess the effectiveness of their third party access principles 12-24 months after publication
Balance protection and access	• Firms could develop straightforward options to encourage legitimate delegated access for carers, whilst maintaining robust safeguards to reduce the risk of abuse • We encourage firms to work with their trade bodies to clarify the challenges they face in balancing protection and access, and to develop best practice solutions
Promote the benefits of planning ahead	• Firms could proactively tell older consumers and their carers about all available third party access options • We encourage the Money Advice Service and its successor body, the SFGB, consumer groups, the OPG (and its equivalents in NI and Scotland) and firms, to: – encourage consumers to plan ahead – better understand the triggers which improve financial resilience – dispel myths and highlight the risks of PIN and password sharing – promote consumer understanding of the benefits of planning ahead for third party access

5 Later life lending

- Housing equity can form a large amount of an individual's wealth in later life. As the population ages, this will logically result in an increasing number of people who want to access the equity in their property.
- There is already a large market for later life mortgage lending, with potential for further growth. The number of interest only mortgages held by older consumers, and are close to maturity, provides another challenge for industry and customers.
- Neither providers nor intermediaries are confident at finding or referring customers who are rejected for a mortgage to another, more suitable provider. The opaque and complex nature of lending criteria and affordability assessments applied by lenders makes this worse.
- In response to the changing nature of our ageing society, lenders have increased or even removed upper age limits in the mortgage market. They have also introduced specialist teams to assist customers who have non-standard needs.
- The FCA Mortgage Code of Business[80] ('MCOB') rules do not prohibit, or put restrictions on firms lending to older consumers. Product and service innovation to assist older consumers is likely to benefit both consumers and firms.

Introduction

For many older consumers, housing forms a sizeable portion of their wealth in later life. Older consumers may want – or need – to use their housing equity to support their financial needs while remaining in their home.

In light of pension shortfalls, housing equity will continue to play a key role in later life and retirement planning. It is important that the right products and services are available to meet the needs and requirements of older consumers throughout their lifetimes.

We worked with firms and trade bodies to explore how older consumers' diverse needs and circumstances are accommodated within mortgage lending and distribution. We also explored some of the specific challenges for advisers and lenders who want to serve older consumers. In this chapter we look at the mortgages sector in part because it may help firms in other sectors.

Our case study work has revealed potential issues arising in the sector. These include:

- barriers that may affect an older consumer's ability to research, identify or access a mortgage product that meets their needs, for example the opacity and complexity of lending criteria

80 See: https://handbook.fca.org.uk/handbook/MCOB/

- limited appetite amongst some lenders for later life lending (with possible causes being lenders forming judgements that these borrowers may pose increased regulatory or commercial risks)
- potential barriers to innovation

This chapter provides some insight into the characteristics and experiences of older borrowers – and the challenges and opportunities arising for firms. It also sets out the steps we are taking to address some potential barriers in our MCOB rules to promote positive innovation in the interests of consumers.

In many cases, the issues are beyond the remit of a single party to address. We note that firms and trade bodies in the industry have been proactively considering the issues relating to later life lending. They are also making significant efforts to understand and adapt to the changing needs of an ageing population. We welcome the progress that these interventions are driving in the sector, and remain committed to working with the market to deliver better outcomes for consumers and firms.

UK mortgage market

Patterns of owner occupation, home-ownership and use of mortgage finance are changing. In the 1980's and 1990's more consumers were accessing the housing ladder early in adult life, and paying off their mortgages before retirement (conventionally over a 25 year term). Older consumers then hoped to retire debt-free and live on the income from a pension, and pass on the value of their property to their families.[81]

Today, home ownership remains an important goal.[82] However, due to rising house prices, wage stagnation and higher debt, many people are renting for longer and are only able to buy later in life. As a result, mortgage repayments are extending further into retirement. Some may never own their home outright. At the same time, homes are increasingly being used to supplement modest retirement incomes or deal with shortfalls in pension savings. Inter-generational wealth transfers are becoming more common while homeowners are still alive, with any residual values being passed on in death.[83]

Trade bodies and firms in the sector have recognised these changes:

> **"We must respond as an industry to reflect the changing needs of consumers. This will include an increasingly inter-generational approach to home ownership, as parents and grandparents borrow to release some of their housing wealth to support the younger generation. It is the combination of multiple factors that will drive greater levels of mortgage borrowing in later life."**
>
> ***Paul Broadhead, Head of Mortgage Policy, Building Societies Association***[84]

81 Later life borrowing – New mindsets: Old silos, Gostelow, Hurman et al (2017): https://cml.org.uk/news/cml-research/the-advice-framework-for-older-mortgage-customers-an-assessment/

82 See: http://natcen.ac.uk/our-research/research/first-time-buyers/

83 See: https://fca.org.uk/business-plan-2016-17/2-risk-outlook

84 Mortgage debt for older borrowers to double by 2030, Fitzsimmons (2017): http://mortgagesolutions.co.uk/news/2017/05/03/mortgage-debt-older-borrowers-double-2030/

It is important that the FCA recognises these trends and responds in an agile way to ensure that regulation, products and services remain fit for purpose.

Demographic and economic trends mean that there is potentially a large market for later life mortgage lending and that the nature of that lending is changing. A large number of consumers aged 55 and over are also holding interest only mortgages which are close to maturity.

- In October 2016, consumers aged over 55's in England held approximately £1.5 trillion of UK housing wealth
- This is projected to increase to £2.9 trillion by 2036[85]
- Lenders advanced over 94,000 mortgages to those aged over 55 in 2016 – reflecting £12.3 billion of mortgage lending[86]
- 30% of mortgages sold to over 55's were lifetime mortgages[87] – rising to 53% for those aged over 60, and 72% for those aged over 65
- Over 700,000 over 55's hold interest only or part and part mortgages
- Approximately 6.4% (1.42 million) of all mortgage holders aged 35-64 will not have paid off their mortgage before retirement given the current term of their loan[88]
- The total amount of mortgage debt held by over 65s is projected to rise from £20.1 billion to £39.9 billion by 2030

Current needs and circumstances of older consumers

Our chapter on '*Understanding Older Consumers*' explains that consumers aged 55 and over are highly diverse. Borrowers within this large group have diverse financial circumstances and needs. Their access to credit and borrowing varies depending on their access to current and future income, housing equity and debt.

The Council of Mortgage Lenders (now UK Finance) commissioned specific research into the mortgage advice needs of older borrowers in 2017, identifying the presence of at least five potential categories of borrowers (not mutually exclusive):[89]

- The **over-stretched** may be struggling with borrowing commitments they made in the past. They may now find it difficult to re-pay their loan, or to re-mortgage. Some may be in arrears and also managing credit card debt. They are unlikely to be able

85 Age Partnership's property wealth forecast is based only on over 55 households where the property is owned outright (without a mortgage) and is based on ONS population forecasts for England between 2012 and 2037, English Housing Survey data on the number of people who own their home outright and the Land registry data on current average house prices. Age Partnership (2016): http://careers.agepartnership.co.uk/over-55s-hold-more-wealth-in-their-homes-than-the-gdp-of-italy/

86 Later life borrowing – New mindsets: Old silos, Gostelow, Hurman et al (2017): https://cml.org.uk/news/cml-research/the-advice-framework-for-older-mortgage-customers-an-assessment/

87 Later life borrowing – New mindsets: Old silos, Gostelow, Hurman et al (2017): https://cml.org.uk/news/cml-research/the-advice-framework-for-older-mortgage-customers-an-assessment/

88 Lengthening the ladder: the future of mortgage borrowing in older age, Harland (2017): https://bsa.org.uk/information/publications/industry-publications/lengthening-the-ladder-report. This report defines someone as in retirement if they are age 65 or above. In reality, some people may leave the workforce earlier or later than this – the average effective age of leaving the workforce in the UK was 63 in 2014, but it is likely to rise as the State Pension Age increases

89 Older borrowers: new approaches, old barriers, Clarke (2017): https://cml.org.uk/news/news-and-views/older-borrowers-new-approaches-old-barriers/

to use equity release as an option, and some may be better off selling their home, and renting with support from the benefit system. Lenders may already be offering support by helping them deal with arrears or by extending the mortgage term. They may also need to point the customer towards more general debt advice.

- People who are **extended** may be able to continue to pay existing loans in the short to medium term. But they may need to carry on working in "retirement," and might also need to borrow in the future. Some in this group may be interest-only borrowers, possibly facing a shortfall on their repayment plan. They could also be considering releasing equity, or selling the property to repay their loan.
- Those **adjusting to life in old age** may be thinking about moving to a more suitable home, modifying their home, or paying for care and support. They may currently have small loan-to-value borrowing needs that could be met through a lifetime or mainstream mortgage, but may need to borrow more in the future.
- Those who are **managing well in retirement**, but who may need to borrow more at some stage or may be considering a lifetime or mainstream mortgage to fund luxuries or to pass on money to their children.
- **Tax planners** usually have an adequate retirement income. They may be considering options like managing their pension as a means of sheltering wealth. They may be planning to use their housing equity to fund luxuries, to pass on money to their children or to reduce inheritance tax. They may also already be getting specialist help from an adviser or wealth manager.

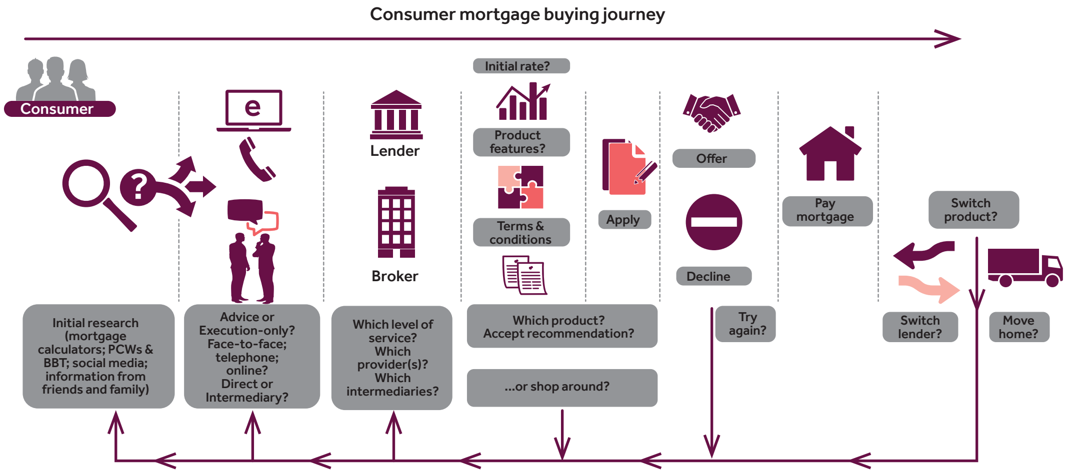
Older consumers who are near to retirement or retired are more likely to use mortgages as a way of drawing down wealth held within their homes. They are more likely to change their employment status during the mortgage term. While the group as a whole is highly diverse, older consumers may experience specific types of vulnerability or life events. These may affect their ability to make repayments during the course of their mortgage term.

These factors increase the complexity. They also create challenges for lenders who have to underwrite loans and assess affordability. This has led to some firms deciding not to service older borrowers who are new customers, or only accept specific types of retirement income.

Interest only maturities

There are many borrowers who are aged over 65 and over in the interest-only maturity back book.[90] Over 40,000 interest-only mortgages are due to mature in households with borrowers aged 65 and over every year between 2017 and 2032. We are aware of this issue and made commitments in the 2017/18 Business Plan to do a Thematic Review in to maturing interest-only mortgages. This is due for completion by Q4 2017/18.[91]

90 See: http://ageuk.org.uk/latest-press/archive/interest-only-mortgages-age-uks-response/
91 See: https://fca.org.uk/publication/business-plans/business-plan-2017-18.pdf



Older consumers often go to bank branches first when looking for a mortgage product.[92] However, older consumers may find that there are less mortgage products available to them than when they were younger. This could be due to fewer local branches, fewer products offered by high street brands that meet their needs, or restrictions in lending criteria to older consumers. This can make it more challenging for older consumers to identify and access mortgage products which are potentially appropriate for their needs.

Customers are often surprised and disappointed when they are unable to access credit, particularly when they have strong credit ratings or track records of repayment. The qualitative research on Access commissioned by the FCA[93]shows that consumers may not think an upper age limit has any effect on their ability to take out a loan, as long as they can afford it.

> **"They said they wouldn't give me a mortgage, despite being for only 25% of the property value and me having more than enough salary-wise. It was because of my age, but it was a ridiculous decision. They should have been able to easily see that I could pay it back."**
>
> ***Consumer interview, Watford; Rowe et al (2016)[94]***

Lenders may not be making information about upper age limits, acceptable sources of retirement income or other information clear on their websites. They are also unlikely to be including this information in their advertisements or promotional material. Our chapter on Understanding Older Consumers also explores the higher risk of digital exclusion that arises in this group. This may significantly increase challenges for consumers who are trying to undertake preliminary research to identify lenders or products that meet their needs.

Our market study on competition in the mortgages sector[95] focuses on consumers' ability to make effective choices. The study considers whether the available tools

92 Later life borrowing – New mindsets: Old silos, Council of Mortgage Lenders (2017) p 63: https://cml.org.uk/news/cml-research/the-advice-framework-for-older-mortgage-customers-an-assessment/

93 Access to Financial Services in the UK, FCA (2016): https://fca.org.uk/publication/occasional-papers/occasional-paper-17.pdf

94 See p 111: https://fca.org.uk/publication/occasional-papers/occasional-paper-17.pdf

95 See: https://fca.org.uk/publications/market-studies/mortgages-market-study

(including price comparison websites, best-buy tables and advice) effectively meet consumer needs. This includes a specific assessment of whether there is suitable provision for consumers with less common needs/circumstances, including those without online access, and older borrowers who may need advice across a wider product range.

Being declined

As some firms undertake manual underwriting for later life lending, and different lenders take different approaches to upper age limits, acceptable income sources and loan-to-value ratio, being declined by one lender doesn't automatically mean a lack of eligibility across the board.

Trade bodies and firms told us that many industry members feel there is not currently an impartial, credible information source for consumers who are not eligible. Many firms were concerned about the potential conduct risks from a direct referral, including the risk of inadvertently giving advice. This included referrals to specific intermediary firms or networks.

In general terms, simply giving information without comment or value judgement on its relevance to decisions is not advice unless a firm steers a consumer to one or more specific products.[96] Ineligible consumers may be able to identify suitable alternative products by doing further research or pursuing alternative routes, for example:

- researching later life lending options independently, with the support of a trusted relative, or speaking with a third sector body for help
- researching lifetime mortgages – e.g. through the Money Advice Service website, or
- trying to identify specialist brokers who may be able to help navigate the market, especially those with a focus on later life lending or retirement advice

Using an intermediary

Many mortgage transactions are intermediated. Our discussions with firms suggest that advisors and intermediaries face a number of challenges when seeking to place older consumers. In some cases, these mirror issues experienced by other groups of consumers.

We understand from firm feedback, that this issue could stem from a number of root causes, including:

- lenders applying complex eligibility criteria and affordability assessments to consumers with more specialist or non-standard circumstances
- opaque or nuanced lending criteria are difficult for consumers, brokers and advisors to find
- sourcing systems tend to generate results which are not bespoke to the needs of older consumers and tend to feature either residential or lifetime mortgages, but not to both. This means that advisers cannot always readily compare information on lifetime and mainstream products.

96 PERG 4.6.1G and MCOB 4.7A.1G

- in both cases, this can sometimes result in intermediaries defaulting to providers and products that they know or are more familiar with, and may result in consumers having difficulty identifying which brokers can advise on specific types of products

- advisers who are disincentivised from servicing consumers presenting with more complex circumstances, due to the additional work required to find a suitable product and support an application

Some of these issues may also relate to tools used directly for consumers, like price comparison websites and may not only apply to older borrowers. We have passed this intelligence on to the Mortgages Market Study (MMS) to contribute to their wider understanding of whether tools help consumers make effective decisions.

Advice

The CML's recent research report *Later life borrowing – new mindsets: old silos*[97] noted that Government, industry and regulators should find ways to ensure that consumers seeking to borrow in later life are provided with information, guidance and advice which considers both residential and lifetime mortgages.

> **"Later life borrowers are not always served well by the current advice framework, in particular in helping consumers navigate the market and to understand the full suite of options open to them."**
>
> ***Later life borrowing - New mindsets: Old silos, Gostelow, Hurman et al (2017)*** [98]

They have called for:

- the Single Financial Guidance Body to look into ways to help integrate support across residential and lifetime mortgage sectors for older consumers, and if possible, integrating this with pension guidance as part of planning for and support in retirement

- guidance services and industry to develop better tools to help consumers compare and evaluate their later life borrowing options

- lenders and advisers to think about how to deliver a more joined up approach to advising later life borrowers

Following responses to our Call for Inputs on Competition in the Mortgage Sector, we consulted on one element of this: whether to develop an additional means for attaining an equity release qualification. A number of lifetime mortgage providers had told us that the current qualification requirement for advisers to first attain QCF Level 3 status for mortgages was a potential barrier to advisers becoming qualified. They also said it might be limiting consumers' ability to access equity release products. In particular, they suggested that some independent financial advisers may not be offering equity release because they need to be appropriately qualified to advise on a separate product (a standard mortgage) that they have no interest in selling.

97 Later life borrowing – New mindsets: Old silos, Gostelow, Hurman et al (2017): https://cml.org.uk/news/cml-research/the-advice-framework-for-older-mortgage-customers-an-assessment/

98 See p 11: https://cml.org.uk/news/cml-research/the-advice-framework-for-older-mortgage-customers-an-assessment

Firms responding to this consultation and our own Discussion Paper generally welcomed the aim of consumers having greater access to equity release and the concept of holistic retirement advice. However they acknowledged the difficulties in achieving this. A number of firms showed an interest in providing different forms of holistic advice, or advising on both lifetime and mainstream mortgage options – but their views on how to deliver this in practice were mixed.

Overall, the responses we received did not demonstrate a market need to change the appropriate qualification for equity release.[99] Very few respondents believed this type of change would result in any significant increase in the number of advisers qualified and active in this area. We still think that a solid understanding of mortgages is, and is likely to remain, an important competency to provide equity release advice.

Upper age limits

Our Occasional Paper on Access to Financial Services in the UK showed that some older borrowers face access constraints in this market. We noted that they 'are more likely to be turned down for a mortgage in later life, without a clear reason as to why'.[100] Consumer groups and respondents to our Discussion Paper shared this feedback. Older consumers often mention upper age limits in lending policies as a perceived reason for ineligibility for loans or declined applications.

Under the Equality Act 2010 firms are allowed to take age into account when providing financial services, as long as they base their age-related risk assessment on relevant information from a reliable source.[101]

We are not trying to compel firms to remove upper age limits for products where they exist, and remain neutral towards this practice in firms.

Firms have told us that historic approaches used to assess eligibility for products and services are becoming less relevant and accurate over time as employment and retirement patterns change. This includes using blanket upper age limits. Trade bodies have also told us that rigid policies or controls that drive a 'one size fits all' approach have the potential to result in financial exclusion, and potential loss of commercial opportunity.

Firms across many financial sectors said that they are considering whether their approaches to defining target markets and commercial strategies reflect the reality of consumer circumstances and the external environment. When doing this, firms have typically considered whether supporting policies and systems and controls remain fit for purpose, are adapted to reflect and give effect to any changes in commercial appetite or lending strategies, and allow sufficient flexibility to deal with more unusual customer circumstances, where appropriate.

The mortgage industry has taken steps to address this issue. The CML (now part of UK Finance), the BSA and Equity Release Council have launched a number of collaborative initiatives to address challenging topics. These include using upper age limits, the advice needs of older borrowers and loss of mental capacity during the term of a loan. We have also noted increased appetite to service older consumers across some firms.

99 Review of the FCA's appropriate qualification exam standards, PS17/11 (2017): https://fca.org.uk/publication/policy/ps17-11.pdf
100 Access to Financial Services in the UK, Financial Conduct Authority, 2016, p 13: https://fca.org.uk/publication/occasional-papers/occasional-paper-17.pdf
101 Equality Act 2010, section 20A(2)

There have been a number of interesting developments:

- many retail lenders have increased their maximum lending age and a number of building societies now have no age limits
- the average maximum age limit amongst the largest lenders has increased to 81
- a number of lenders refer older consumers to specialist teams, or undertake manual underwriting to allow a more bespoke assessment of individual customer circumstances
- The CML has undertaken and published focused research exploring the specific challenges and needs facing older borrowers seeking advice, including barriers to firms advising on both mainstream and lifetime mortgage options

Although we have noted some progress in this area, consumer groups, firms and trade bodies report that increases to upper age limits will not be sufficient to facilitate lending to older borrowers. It may have limited impact on lending volumes if applied in isolation, due to other potential constraints in the affordability test. Firms may be unnecessarily limiting themselves, and older borrowers, by having rigid policies or systems and controls that are unable to consider individual circumstances, potentially resulting in unintended exclusion of credit-worthy consumers in the target market.

Initial feedback shows that some lenders' policies are becoming more inclusive and flexible. They allow greater scope to consider individual customer circumstances. A number of lenders are starting to compete for business from older borrowers, including using specific marketing and distribution strategies. The Financial Ombudsman Service observed that *'lenders are willing to work around age limits – which they're entitled to set – particularly for existing customers. They're also applying policy exceptions flexibly'*.[102]

A number of lenders are also considering whether (and how) to adapt their systems, controls, policies and product design to reflect the types of consumer circumstances that exist. For example, customers who do not intend to purchase an annuity, or consumers who intend to make considerable repayments in the earlier stages of the mortgage term and then use equity to fund future retirement needs while maintaining some form of repayment.

We welcome these initiatives and efforts. Our Ageing Population work is a first step in the journey for us. We remain committed to working with the industry to deliver better outcomes for all consumers, including older borrowers.

Lending to older borrowers – regulatory risk

Lenders and trade bodies told us that they are unclear about permissible conduct. This includes FCA expectations about what sources of retirement income are acceptable for assessing affordability, when a mortgage extends into retirement. A number of stakeholders thought there was a higher degree of conduct and

102 Mortgages and age: what's in a year? Financial Ombudsman Service (2017): http://financial-ombudsman.org.uk/publications/ombudsman-news/139/139-mortgages-and-age-whats-in-a-year.html

regulatory risk associated with lending to older consumers. This is particularly the case for those who are approaching, or already in, retirement. Queries predominantly related to the application of the affordability test.

> **"Affordability is the key, whatever the age of the borrower. In fact, the income of older borrowers, such as pension income, can be very stable."**
>
> ***Speech by Linda Woodall at the Council of Mortgage Lenders Conference, London (2014)[103]***

Our MCOB rules do not aim to discourage firms from lending to older borrowers, as long as they are credit-worthy. Decisions about lending strategy, identification of an appropriate target market, and application of any specific restrictions in lending policies are left to the discretion of individual firms.

In line with our expectations of lending responsibly to consumers, our rules require firms to take account of customers' income (net of tax and national insurance), their committed expenditure, essential expenditure, and basic quality-of-living costs when assessing affordability.[104] We are deliberately not prescriptive about all the different types of income that firms accept for the purposes of the affordability assessment, or the customers that they are able to service. Our intention is to allow firms to use their judgement, and retain flexibility to define their own appetites for commercial risk and design systems and controls which are appropriate in light of the firm's business model and target market. Our guidance makes clear that pension and investment income may be considered as potential income sources for the purposes of the affordability test.[105]

Consumers are no longer required to purchase an annuity with their defined contribution (DC) pension pots.[106] Our Retirement Outcome Review found that over 1 million DC pension pots had been accessed since reforms were introduced in April 2015.[107] Firms and trade bodies told us that the changing environment and pension freedoms had introduced a further degree of uncertainty about customers' future income and potential impact on affordability if their mortgage extends into retirement. They also raised concerns about the lack of future certainty regarding state pension provision (including the triple lock), and other issues not confined to older borrowers. This includes implications of Brexit, fluctuations in house prices and future cost of living.

Multiple firms also asked for our views on whether they should continue to consider future pension income as part of the affordability assessment. They also asked for our views on appropriate thresholds in terms of loan-to-value ratios, or percentages of income that could be taken into account.

103 See: https://fca.org.uk/news/speeches/mortgage-lending-post-mmr-world

104 MCOB 11.6

105 MCOB 11.6.9G(1)

106 Before pension freedoms, consumers faced several restrictions on when and how they could access their DC pension pots. Principally they had to buy an annuity at retirement unless they were eligible for drawdown by having guaranteed pension income of over £20,000 per year from other sources. Further, early withdrawals of cash over the 25% tax-free allowance incurred a significant tax penalty. The pension freedoms introduced more flexibility in when and how consumers can access their pension savings. Most notably, consumers no longer have to buy an annuity if they do not wish to do so and can now choose from a wider range of products and options, including flexi-access drawdown which have become available to all, with no limits on withdrawal amount; and consumers can access their savings as they wish from the age of 55, including by fully withdrawing their pot (in this case, consumers have to pay the marginal rate of income tax on 75% of their savings).

107 Retirement Outcomes Review: At a glance, FCA (2017) p 3: https://fca.org.uk/publication/market-studies/retirement-outcomes-review-summary.pdf

It is not practical to list all possible types of income which may ever exist. The acceptability of income types and sources varies according to the individual customer circumstances. We realise that the pension freedoms and other external factors create challenges for lenders. This is particularly the case in light of our requirement for lenders to consider expected future changes to income and expenditure[108] and to take a prudent and proportionate approach to assessing the customer's income beyond retirement date. We also give examples of how this may be done.[109] Where consumers have not yet retired, we expect lenders to consider whether they are likely to be able to afford the mortgage if it extends into their retirement. This should be based on what the lender knows when they are assessing the application.[110] We also ask lenders to obtain evidence to back up their affordability assessments and assessments of future retirement income.[111]

We appreciate that this is not an exact science and that it is not possible to predict what a borrower will do tomorrow, or how the environment will change. We expect firms to take a reasonable and common sense approach depending on how far away a customer is from retirement. We expect firms to comply with our rules, and have regard to guidance. Beyond that, it is for the lender to set their lending criteria and policies according to their risk and commercial appetites.

The BSA has published a guide for older borrowers. The guide includes information on maximum age limits, and steps that a consumer can take if they are declined a mortgage.[112] A cross-industry steering group has been established. It is drawing on the expertise of a wide range of participants to consider industry-led guidance on acceptable sources of retirement income for the purposes of the affordability test. It is also exploring ways that firms can give consumers an incentive to plan ahead for future changes in their circumstances, including if they lose mental capacity.

We welcome the efforts made by trade bodies to consider development of industry-led standards to support member firms considering systems, controls and lending policies in light of this issue. We will remain closely engaged and consult on new guidance to clarify our rules, if appropriate.

Product and service innovation

As demographic change persists, there may be increasing demand for product features or terms which allow flexibility to accommodate changing individual needs and circumstances.

Older borrowers may experience a number of life events during the term of their mortgage. This could include cognitive decline, bereavement, and onset of health issues. Older consumers may therefore have distinct service needs or require additional support and flexibility during the product lifecycle. This may pose risks for both the consumer and the firm, and have implications for product and service design.

108 MCOB 11.6.14R)
109 MCOB 11.6.15G(2)
110 MCOB 4.7A.19R; MCOB 4.7A.23G
111 MCOB 11.6.8R; MCOB 11.6.15G(2)
112 Can I get a mortgage at my age?, Building Societies Association (2016): https://bsa.org.uk/BSA/files/cc/cca1a315-0456-488b-9437-0c70c6f844a0.pdf

We spoke to a number of firms who had trialled approaches[113] designed to support consumers experiencing a life event during the product lifecycle:

- one firm piloted a scheme to encourage consumers to take out Powers of Attorney by discounting arrangement fees for applicants that registered a Lasting Power of Attorney (LPA). This incentive structure may prompt customers to better plan ahead for potential life events or loss of capacity. It also reduced a risk for the lender by ensuring that arrangements were in place for a named person to take over if, in the future, a borrower lost mental capacity and was unable to manage their finances

- one firm set up a specialist referral service to support cancer sufferers. This includes offering financial assistance by waiving owned interest, fees and charges across all product lines and seeking to maximise customer access to products and services. The firm told us that the service results in increased customer satisfaction during key life events. They have also noted additional benefits from increased employee engagement, positive reputation and reduced risk of compliance issues or consumer complaints

- another firm has launched a Customer Assistance Helpline for lifetime mortgage customers and their family members. Services include support around health, financial, and legal issues

- we have seen a firm develop a call framework to help telephony staff identify potential vulnerability or coercion/duress during a lifetime mortgage transaction. In situations where coercion, duress or loss of capacity is suspected, the firm requires the consumer to obtain legal advice, at the firm's own cost

Potential barriers to innovation

Although there is no universal service obligation in financial services, all consumers should be able to access the products they need to participate in modern society.

We also identified some areas where additional regulatory clarity is required, or where our own rules may result in barriers to innovation. We have acted to address these, and continue to take steps to ensure that our regulatory settings remain in the correct place.

113 We have not assessed these approaches in detail. We remind all firms of the need to identify target markets for their products and services, and ensure that they have in place systems and controls to manage adequately the risks posed by product or service design.

Example one: Lifetime mortgages
Our responsible lending rules required lenders to assess on-going affordability when considering whether to enter into a lifetime mortgage with a consumer, preventing firms from proceeding unless the consumer could demonstrate ability to continue making repayments.

In 2016, we considered that these rules could have contributed to the restricted development and take-up of the products where customers can make regular capital and/or interest repayments whilst retaining the option to switch to interest roll-up at any point during the term. This option is designed for consumers with higher levels of housing equity who currently have the ability to make regular repayments and wish to mitigate the effect of interest roll up. It is a potentially useful option for those who are uncertain about their future retirement plans, or who wish to retain flexibility in case of a specific life event or change in personal circumstances that might affect their ability to make regular payments.

When we identified the issue we acted quickly and issued a short-term modification by consent to disapply the relevant requirement. We changed our MCOB rules in 2017 following consultation.

Firms told us that they expect change will lead to an addition al £677million in later life lending over the next 5 years.

Our desk-based research indicates that a number of older borrowers may want – or need – to reduce their overall monthly repayments to create additional disposable income (for example to supplement retirement income, or make up for shortfalls in their pension pots). Others may wish to refinance an existing interest-only mortgage which is maturing, switch to a new interest-only deal which better meets their needs, or fund a specific need such as home improvements whilst securing borrowing against their homes to get a better interest rate. In many cases, these customers wish to stay in their homes.

Historically, some lenders have been willing to offer older borrowers an interest-only mortgage using the underlying housing equity to evidence a credible repayment strategy. However, such loans have largely been withdrawn as lenders have adopted more cautious approaches to interest-only lending. Some also believe that regulation prevents the sale of the mortgaged property being viewed as an acceptable interest-only repayment strategy.[114]

Although lifetime mortgages remain a useful tool and meet a number of consumer needs, there is a risk that some customers are resorting to taking a lifetime mortgage when some form of standard interest-only mortgage may better match their needs and circumstances.

114 This is not the case as evidenced by MCOB 11.6.4E(3)

Example Two – Retirement Interest Only Mortgages
Recent discussions with firms showed a renewed appetite to offer older customers an interest-only mortgage with a very long or indefinite term, with the express understanding that the capital would not be repaid until the customer died or moved into long-term care. However, they told us that a change of regulatory treatment when implementing the Mortgage Credit Directive (MCD) was holding this back.

Having reviewed the potential for consumer detriment we are currently consulting on changes to restore the previous regulatory treatment.[112] We are asking the industry and consumer groups for their views on whether these loans should be regulated like any other interest-only mortgage, rather than being subject to the specific additional standards required for lifetime mortgages.

We recognise the importance of balancing access against a need to ensure an appropriate degree of protection for retail consumers. Given that there are some potential conduct risks associated with this product structure we are also consulting on a small number of accompanying changes to ensure adequate consumer protection.

The consultation proposals indicate our appetite to actively reflect on regulatory barriers brought to our attention and enhance product choice in the interests of consumers. We encourage market participants to respond to this consultation.

FCA Handbook Review

Although not sector specific, we recognise that the number and complexity of rules in the FCA Handbook can make it hard for firms to clearly interpret our expectations. It may be a barrier to new firms entering the market or add unnecessary cost.

Our Mission confirmed our intention to review the Handbook to ensure consistency with the principles of good regulation. We cannot begin this work until the outcome on EU withdrawal is clear. However, we remain committed to the review and have begun scoping work to start as soon as possible. This may also offer the opportunity for us to consider the case for continuing the current approach to distinguishing standard and lifetime markets in our rules.

Project Innovate

Through Innovate, we help firms tackle regulatory barriers to innovation. This may include clarifying regulatory expectations, examining our own rules or implementing policy changes in the future. In supporting innovative firms, products and businesses we're ultimately looking to satisfy three critical measures of success:

- Can we see more innovative firms entering the market?
- Is there greater innovation and competition by and between larger firms?
- Are consumers benefiting from that?

The Advice Unit, a part of Innovate, provides regulatory feedback to firms developing automated models to deliver lower cost advice and guidance to consumers.
We recently increased the coverage of our Advice Unit to take in firms within the

115 CP17/32 - Quarterly Consultation No 18 (FCA), September 2017, https://www.fca.org.uk/publication/consultation/cp17-32.pdf

mortgage sector, as well as firms that want to provide guidance instead of regulated advice, as well as firms not intending to seek authorisation.

Key issues and ideas to consider

Issue	Ideas to consider
Firms and trade bodies are likely to benefit from remaining aware of the needs of a changing borrower demographic, ensuring that products, services, lending strategies and supporting control environments remain fit for purpose in an Ageing Society	Lenders and intermediaries may wish to consider: • reflecting on current policies and customer proposition, through an older consumer lens • planning for consumers' needs at different points in the consumer and product lifecycle • considering potential innovation in product features or terms and supporting services to accommodate specific life events
There may be scope for firms and trade bodies to work collaboratively to identify opportunities to ease the customer journey for older consumers seeking mortgage finance	Lenders and intermediaries could consider how to signpost consumers to alternatives when they decline someone due to upper age limit or affordability. This could be by reiterating that a 'no' from one firm does not necessarily mean a lack of eligibility across the board, and signposting alternative options, such as researching: • later life lending options independently, with support of a trusted relative, or consulting a Third Sector body for assistance • lifetime mortgages (information on lifetime mortgages can be found on the Money Advice Service website) • specialist brokers who may be able to help navigate the market, especially those with a focus on later life lending or retirement advice
Government and industry should find ways to ensure that consumers seeking to borrow in later life are provided with information, guidance and advice which considers a range of mortgage options to meet their needs	• SFGB could explore ways to help integrate support across residential and lifetime mortgage sectors for older consumers. This could be integrated with pension guidance as part of planning for and support in retirement • Guidance services and industry could develop better tools to help consumers compare and evaluate objectively their later life borrowing options • Industry could encourage and facilitate an expansion of advice services by advisers to include both residential and lifetime mortgages • Lenders and advisers operating in this market could consider how best to deliver a more joined up approach to advising later life borrowers • FCA Mortgages Market Study and Ageing Population work to explore issues faced by borrowers with special circumstances
The FCA will remain committed to ensuring that we help firms to tackle regulatory barriers to innovation in the interests of older consumers	Our Project Innovate will continue to consider regulatory barriers to innovation and we encourage firms to submit applications for support through via our Regulatory Sandbox, Direct Support and Advice Unit functions

6 Long Term Care

- As people live longer, but not necessarily in good health, long term care needs to be considered and funded by individuals
- The Ageing Population project supports other findings that people do not plan enough financially for old age. There are also misconceptions as to the level of funding the Government will provide to those who require assistance
- The cost of long term care can be substantial, with expectation that it will increase with time and depending on the level of care required. Regulated advice is clearly an important aspect of financial planning for later life
- Long term care is a complex and ongoing public policy issue. It requires collaborative working led by Government and supported by industry and the third sector

Introduction

Our ageing society has already placed increased demands on the UK's welfare state.[116] People are living longer with more complex health conditions.[117] One in three women and one in four aged over 65 will require long term care at some point in their lives.[118]

As set out in Our Mission, we need to be clear about where we can serve the public interest as a regulator and where the issue falls outside our remit into an issue of wider public policy more suited to Government.

Long term care is first and foremost a social policy issue led by the Government. However, in line with our remit to serve the public interest,[119] there is a supporting role for the FCA to play by considering how financial services can help consumers navigate long term care. In particular, we considered the role of financial advice in helping consumers consider options to fund long term care.

Our Discussion Paper respondents recognised that there is poor consumer awareness about the need to save for long term care. Without access to clear care-related information, including regulated financial advice, poor decision making and failure to plan ahead for long term care may translate into poor consumer outcomes and risk of harm.

As this is not an area that the industry has engaged with that much to date, there are fewer examples of good practice that we have been able to incorporate into this chapter. However, we hope that by highlighting some of the key issues, this will prompt

116 Future of an Ageing Population, Government Office for Science (2016): http://ageing.ox.ac.uk/files/Future_of_Ageing_Report.pdf
117 See: https://nursingtimes.net/roles/older-people-nurses/uk-patients-are-living-longer-but-with-more-ailments/5089907.article
118 Policy summary – Pensions and the funding of long term care, Institute and Faculty of Actuaries (2015): https://actuaries.org.uk/documents/policy-summary-pensions-and-funding-long-term-care
119 See: https://fca.org.uk/publication/corporate/our-mission-2017.pdf

a wider focus on the issue and encourage further collaboration between public bodies and the industry. We stand ready to support this.

What is long term care?
Long term care is a subset of social care[117] and often refers to permanent residential or nursing care.[118] However, it may also include domiciliary care at home. Different organisations provide this range of care, including local authorities, the NHS and private and voluntary organisations.

The care includes ongoing assistance with some of the most basic activities of daily living such as washing, dressing and eating. The need often comes from disability, chronic illness or cognitive impairment.

Government policy

Adult social care is a devolved policy matter. There are different policy and regulatory frameworks in England, Northern Ireland, Scotland and Wales. In the Spring Budget 2017, the former government announced its intention to establish 'a fair and more sustainable basis for adult social care, in the face of the future demographic challenges' and that it would 'set out proposals in a green paper to put the system on a more secure and sustainable long term footing'. [122]

In addition to this, the Competition and Markets Authority (CMA) is conducting a market study[123] on care homes for the elderly (launched in December 2016), to review how well the market works and if people are treated fairly. In June 2017, it published emerging findings and announced a consumer protection case to investigate concerns that some care homes may be breaking consumer law. In particular, the CMA found that:

> *'For this market to work well, prospective care home residents and their families need to be able to make informed choices. The initial results from the Competition and Markets Authority's (CMA) consumer research suggest that many people find it challenging to make decisions about care under the stressful and time pressured circumstances which generally apply. Even when good information is available people rarely seek it or engage with it. Many people do not seek more information and in many cases they are confused by the social care system and funding arrangements, and do not know how to find and choose between homes.'*[124]

Their final report is currently expected to be published in November 2017.[125]

120 Social care in England is defined as the provision of social work, personal care, protection or social support services to children or adults in need or at risk, or adults with needs arising from illness, disability, old age or poverty.

121 Activities of daily living (ADL) are routine activities that people tend do every day without needing assistance. There are six basic ADLs: eating, bathing, dressing, toileting, transferring (walking) and continence. http://investopedia.com/terms/a/adl.asp

122 Spring Budget (2017): https://gov.uk/government/publications/spring-budget-2017-documents/spring-budget-2017

123 Care Homes Market Study – Update Paper, Competition and Markets Authority (2017): https://assets.publishing.service.gov.uk/media/5941057be5274a5e4e00023b/care-homes-market-study-update-paper.pdf

124 Care Homes Market Study – Update Paper, Competition and Markets Authority (2017) p 4: https://assets.publishing.service.gov.uk/media/5941057be5274a5e4e00023b/care-homes-market-study-update-paper.pdf

125 See: https://gov.uk/cma-cases/care-homes-market-study

The role of regulated financial advice in long term care decisions

The cost of long term care in England is substantial, averaging approximately £28,000 p.a., reaching £38,700 p.a. if nursing care is required.[126] It is likely that this cost will continue to increase over time. Without access to clear care-related information consumers may experience poor outcomes, harm or vulnerability as a consequence of inadequate financial planning or provision for long term care.

On average, across the UK, 41% of care home residents are entirely self-funded, 37% are funded by the public purse, and others self-fund part of their care or receive other funding.[127] It is estimated where self-funders run out of money, this costs the state approximately £425 million.[128] Therefore, access to good regulated advice is important, not only for improving consumer outcomes but also mitigating the financial impact of poor planning. We welcome the role organisations like the Society of Later Life Advisers can play in helping consumers find trusted accredited financial advisers who specialise in financial needs in later life.

The Care Act 2014 makes it a statutory requirement for Local Authorities in England to provide access to information and advice about care and support services in the local area.[129] This includes signposting self-funders to regulated financial advice. However, a number of Discussion Paper respondents and other industry stakeholders have observed that Local Authorities appear to be doing this to varying degrees of quality and effectiveness. There is also indication that there may be a general lack of understanding across the Local Authorities around the benefits advice may deliver to a self-funder. Similarly, as part of its interim findings, the CMA found that '*the provision of information can be variable. Public perceptions are that the availability of personalised advice and support is often limited, particularly for those who are self-funded and not 'in the system'.*'

Financial advisers can play an important role in helping consumers to plan ahead. Advisers may be regarded as trusted third parties and well placed to 'nudge' consumers to consider their later life needs when providing advice at all life stages. This may include signposting to risks of potential future ill-health, saving for longer periods of retirement, critical illness and need for long term care or considering the need for third party access.

Conversations of this nature can be difficult, and require a high degree of empathy. Advisers may also be approached at a point when urgent decumulation is required to fund long term care, and encounter vulnerable clients and family members. We welcome the efforts of professional bodies such as the Personal Finance Society who are taking steps to help their members build capability and consider the diverse and complex needs arising as a result of an ageing society.

126 Laing & Buisson Care of Older People UK Market Report 2014/15 as referenced by http://payingforcare.org/care-home-fees
127 Care Homes Market Study – Update Paper, Competition and Markets Authority (2017): https://assets.publishing.service.gov.uk/media/5941057be5274a5e4e00023b/care-homes-market-study-update-paper.pdf
128 More older people clue-up on fees, Caring Times (2016): http://careinfo.org/more-older-people-clue-up-on-fees/
129 See: https://gov.uk/government/publications/care-act-statutory-guidance/care-and-support-statutory-guidance

Low consumer awareness

Many responses highlighted that there is poor access to guidance or advice about long term care products. While some respondents suggested that there was limited availability of insurance products and savings vehicles for long term care, others (such as the Association of British Insurers) have noted that there are a number of products that can be used to pay for care, such as annuities, retirement income products, life insurance triggering on death or care needs and equity release, but that public awareness of these products remains low.

The off-putting nature of this topic and human behavioural tendencies are likely contributors towards a lack of consumer interest and awareness around long term care. Consumers may ignore the need to save, on the optimistic assumption they will not need long term care.

Consumers often underestimate their own life expectancy and do not adequately consider the risks that ill health or loss of mental capacity will have on their future personal circumstances.[130] Furthermore, there is currently little incentive for consumers to save towards the future cost of long term care. It is likely that the lack of mass consumer engagement and demand for pre-funded long term care products impacts on the lack of supply. It is difficult for providers to design products if future experience including government policy cannot be predicted. This creates a circular situation where it is neither commercially viable nor profitable for providers to innovate. At the present time, stimulating significant market demand in the absence of future policy direction and consumer engagement appears very difficult unless there is an element of compulsion.

There is a common misconception that this type of care is government-funded as part of the NHS.[131] Furthermore, anecdotal evidence suggests there is strong perception amongst older consumers that their families and homes will help provide financial support for care needs they may have. When compounded, the lack of consumer awareness around the need to save and the substantial cost of care may result in considerable consumer harm. It is important to acknowledge that consumers may not have sufficient assets for long term care to be a consideration in their later life budgeting.

A number of respondents encouraged the Government take further action in this area. For example, to inform individuals of their responsibilities to plan and pay for long term care costs, signpost consumers to sources of information and expand the role of Pension Wise to prompt consumers to consider how to meet care costs in later life, and raise the profile of long term care provision so that there is a demand for financial services product and advice services. The CMA noted that '*many people are uneasy thinking about social care as a 'consumer' purchase and struggle with the notion of exercising choice as 'consumers' in a market. […] It appears that it is difficult for prospective residents to gather the information they need, and in any case many are simply not prepared, able or supported in a way that would allow them to make good, well-informed choices.*'[132]

130 MS14/3.2 – Retirement Income Market Study – Interim Report (2014) p 47: https://fca.org.uk/publication/market-studies/ms14-03-2.pdf

131 Care Report 2016, Partnership (2016): http://justadviser.com/documents/partnership/care-report-2016-ltc-4288.pdf

132 Care Homes Market Study – Update Paper, Competition and Markets Authority (2017) p 15: https://assets.publishing.service.gov.uk/media/5941057be5274a5e4e00023b/care-homes-market-study-update-paper.pdf

We do not underestimate the challenge of shifting consumer behaviour and mind-set on a large scale. However, the remit and future work of the SFGB (currently Money Advice Service, The Pensions Advisory Service and Pension Wise), is likely to be important in promoting earlier consumer engagement with planning ahead, including for potential long term care costs. In the long run, this may reduce the number of consumers engaging at the point of an immediate care need, when resources are likely to be more finite. At minimum, it could help inform consumers at the point of immediate need.

Cross collaboration between the SFGB, Local Authorities, NHS, third sector and others could help identify synergies and work towards enhancement of online information and digital tools. This collaboration could improve access to good quality, clear information and signposting to regulated financial advice.

Conclusion

Ultimately, long term care is a crucial public policy issue to address. In light of this uncertain landscape, and lack of consumer demand, we recognise that there is limited appetite for the financial markets to intervene to create products and services to support the funding of long term care.

Given the wide ramifications of policy in this area, we believe these are properly issues for government and Parliament to address rather than the FCA. What the FCA can do is continue to look at the financial services parts of this market and whether consumer harm is arising. Where we see detriment, we will flag this to government and Parliament where appropriate.

7 Other issues

This chapter summarises the feedback we received to DP16/1 that has not been covered in the specific workstreams and case studies above, as well as other FCA work that is of interest to older consumers.

Pension freedoms and advice

Several respondents referred to the increasing choice and complexity for older consumers as a result of pension freedoms. There were concerns that consumers' failure to engage properly meant that they were not fully informed when taking decisions to draw their pensions. A number of respondents were also concerned about consumers running out of money in retirement. They noted that this raised a significant risk of consumer detriment in future. Respondents suggested that more signposting to guidance services and advice was required to ensure that older consumers got the necessary support.

Respondents welcomed the introduction of the cap on pension exit charges and the recommendations and measures coming out of the Financial Advice Markets Review (FAMR) to foster a market that delivers more affordable and accessible advice through a range of channels. This includes automated advice. Greater education by the introduction of consumer guides, Pension Dashboard and financial health check tools were also cited as useful to engage the older consumer.

However, some responses suggested digital tools and guidance services may not be suitable where older consumers do not feel comfortable using these or taking a decision without a personal recommendation.

There were several respondents who wanted the Government to address consumer engagement problems and influence appropriate actions by introducing statutory triggers for customers to be signposted to guidance (where a provider must already communicate with the customer and could signpost such as starting or leaving employment). Alternatively, some respondents suggested increasing the scope of Pension Wise or the Money Advice Service (which will be replaced by the SFGB) to provide information on a wider range of sources of retirement income. There were also requests to incentivise take up of decumulation products, for example through the government introducing tax breaks.

The Retirement Outcomes Review looked at how the retirement income market is evolving after the introduction of pension freedoms. It focussed primarily on consumers that did not take advice. The Review published an interim report on 13 July 2017, which set out preliminary findings, emerging issues and potential remedies we are considering.

Our Business Plan 2017/18 also set out key planned activities in the pensions and retirement income sector, including work on shopping around and switching and wake up packs.

Fraud, scams and financial abuse

The FCA's ScamSmart[133] work highlighted the heightened risk of over 55s being approached by scammers and the propensity of older consumers to be scammed by individuals and companies trying to solicit money from them. Older consumers are also more likely to become victims of financial abuse (including at the hands of family members or carers). Cognitive change, behavioural biases and factors such as loneliness may increase the likelihood of older consumers falling foul of these risks.

Cash payments to fraudsters are typically much harder to trace than online payments with the vast majority of cases going unsolved; typical frauds of this kind include paying rogue builders, romance scams and elderly abuse.

Financial firms are not obliged to report financial abuse to the FCA, but we expect all firms to treat customers fairly, and design appropriate training, processes, systems and controls to support these obligations. Our Occasional Paper on Vulnerable Consumers, published in February 2015, highlighted that identifying customers who may be at risk of financial exploitation and abuse is a vital part of a vulnerability strategy.

The financial services industry coordinates its activity on fraud prevention through Financial Fraud Action UK (now part of UK Finance), including coordinating with Trading Standards and the police. Under the latest initiative, known as the Banking Protocol, there is a plan is to train every front-facing employee of banks, building societies and Post Offices to spot signs that a customer may be withdrawing cash under duress or to give to a fraudster. Police hope the scheme will help reduce financial crime by spotting scams before money has been handed over.

Pension scams

The pension freedoms introduced by the government in 2015 (which give consumers more options for how they access and use their pension pot), combined with low interest rates offering poor returns on savings, are making older consumers an increasingly attractive target for fraudsters.[134] Around 13% of those consumers who had bought an unregulated product through an unauthorised firm didn't realise they didn't have any protection from the Financial Services Compensation Scheme or Financial Ombudsman Service if something went wrong.[135]

Prevention, detection and pursuing those undertaking pension scams are FCA priorities, as set out in our Business Plan 2017/18. As part of this, we are seeking to help consumers to spot the warning signs and avoid scams, including pension scams. We will coordinate our efforts across our supervisory, intelligence and enforcement functions in our work on scams, particularly those that target consumers' pensions.

We will also continue our ScamSmart campaign to help prevent consumers falling victim to all types of investment and pension fraud.

133 Over 55s at heightened risk of fraud, FCA (2016): https://fca.org.uk/news/press-releases/over-55s-heightened-risk-fraud-says-fca
134 Retrieved from: https://fca.org.uk/news/press-releases/investors-urged-to-check
135 Over 55s at heightened risk of fraud, FCA (2016): https://fca.org.uk/news/press-releases/over-55s-heightened-risk-fraud-says-fca

Age discrimination and pricing practices

The topic of 'age discrimination' in financial services was highlighted by the Financial Services Consumer Panel in DP 16/1 and drew a variety of responses. We also received comments indicating there was indirect discrimination through 'price optimisation', where older consumers' loyalty is penalised through product pricing or because they are more likely to retain poor performing legacy products. Consumer groups and some industry bodies asked whether the upper age limits and higher premiums for older policyholders accurately reflected the costs of such services. A few respondents also challenged age discrimination laws, noting that there should be scope for fewer exemptions in financial services.[136]

In September 2016 we published our Feedback Statement on our Call for Inputs on Big Data in retail general insurance.[137] We noted that the increasing amounts of data from a wider range of sources, alongside sophisticated analytical tools, might lead to the use of reasons other than risk and cost becoming more prevalent in pricing practices in the sector.

Our Business Plan confirmed our intention to undertake discovery work in 2017/18 to look at pricing practices in a limited number of retail general insurance firms. We want to better understand how these developments are affecting the market. We are particularly considering how firms' pricing approaches and rating factors work in practice, as well as the drivers and the types of systems and data firms use to decide the final price to consumers. Following this work, we will consider whether, and what, further steps need to be taken.

In practice, insurance pricing is complex and brings together a wide range of information to determine the premium. For risk-based products such as insurance our vision is to ensure consumers are charged proportionally to their level of risk and on the basis of accurate information, and that alternatives are easily accessible for those who pose the highest risk but who cannot improve their situation or find suitable mainstream products without a lengthy or distressing search. We are starting to explore some of these factors for other potentially vulnerable groups – for example, our Call for Input on Cancer and Travel Insurance[138] explores how the travel insurance market is working for consumers who are living with, or recovering from cancer.[139]

International focus: IOSCO mandate on Senior Investor Vulnerability

The FCA sits on the IOSCO Committee on Retail Investors (Committee 8) whose mandate is to conduct IOSCO's policy work on retail investor education and financial literacy. Its secondary mandate is to advise the IOSCO Board on emerging retail investor protection matters and conduct investor protection policy work as directed by the IOSCO Board. The FCA works closely with the Money Advice Service in providing thought leadership to the IOSCO membership on investor education and financial literacy.

136 The Equality Act 2010 bans discrimination in the provision of services on a wide range of factors, including age. However, there is a specific exemption for financial services, with the qualification that, if age is used as a factor in a risk assessment, it must be 'carried out by reference to information which is relevant to the assessment of risk and from a source on which it is reasonable to rely'.

137 FS16/5: Call for Inputs on Big Data in retail general insurance (2016): https://fca.org.uk/publications/feedback-statements/fs16-5-call-inputs-big-data-retail-general-insurance

138 Call for Input: Access to insurance (2017): https://fca.org.uk/publication/call-for-input/calls-for-input-access-travel-insurance-cancer.pdf

139 Our consultation closed on 15 September and will inform our next steps.

The committee felt that a focus on senior investor vulnerability was appropriate given that an ageing population is a challenge facing all jurisdictions. It was felt that IOSCO would be able to collaboratively work with its global membership to gather information on best practice when dealing with senior investors.

This work is being led by the FCA and FINRA (USA) together with a working group of members from Argentina, Australia, Brazil, France, Hong Kong, Italy, Indonesia, Japan, Ontario, Quebec, and the US SEC.

The IOSCO mandate on Senior Investor Vulnerability will provide insight in to vulnerability amongst senior investors, the reasons and causes for this in different jurisdictions, and brings together examples of best practice. The report will provide the results of an international literature review, and gathers responses to surveys from 27 jurisdictions that sit on the IOSCO Committee on Retail Investors, the IOSCO Committee on Regulation of Market Intermediaries, the IOSCO Affiliate Members Consultative Committee, as well as over 2,400 members of the Financial Planning Standards Board. The report will provide a platform for ideas and best practice for jurisdictions to utilise and help develop their own strategies to tackle the issue.

Annex 1: Our scope and research methodology

We launched the Ageing Population project at the All Party Parliamentary Group for Older People and Ageing (APPG)[140] in February 2016, issuing a Discussion Paper that explored the issues arising from demographic change. [141]

Rather than exploring any one topic in great depth, our work was designed to be forward-looking across the regulatory landscape to identify key issues, challenges and opportunities. This document is not an in-depth assessment of individual firms or a review of how the entire market is functioning. However, it is intended to provide important insights into both from the perspective of older consumers. By older consumers, we refer to people aged 55+ (as the earliest age at which a defined contribution pension can be drawn), with a predominant focus on 65+ and 75+.

We used different tools to explore the issues arising and diagnose potential harm, including an extensive programme of stakeholder engagement, desk based research, data analysis, consumer segmentation,[142] reviews of Sector Views and strategies, and consultation with FCA sector specialists. We focused on mass market issues and mainstream products that are particularly important for participation in financial services, and intend for our findings to have wider applicability across products and sectors.

We drew on the FCA's Consumer Expectations research and our nationwide Financial Lives Survey 2017 to gather information about the financial products older people hold and their experience dealing with financial products and firms. In particular, the results allow us to gain a better understanding of whether, in the view of consumers, firms treat their customers fairly. In addition, we took account of previous findings and research that were carried out for work on access and vulnerability.[143]

We also looked at Experian's segmentation tool to consider key socio-economic and demographic characteristics of UK consumers over 55. A summary of our findings is in Chapter Two and a full copy of Experian's segmentation analysis can be found in Annex 2.

140 The APPG, with Age UK as the secretariat, works to engage with the political and legislative issues before parliament affecting people in later life. The group covers a wide range of issues from housing and transport to health and social care.

141 DP16/01: Ageing Population and Financial Services (2016) https://fca.org.uk/publication/discussion/dp16-01.pdf

142 Customer segmentation is the practice of dividing a customer base into groups of individuals that are similar in specific ways relevant to marketing, such as age, gender, interests and spending habits.

143 See https://fca.org.uk/publication/occasional-papers/occasional-paper-8.pdf and https://fca.org.uk/publication/occasional-papers/occasional-paper-17.pdf

Annex 2: Consumer Segmentation

Overview

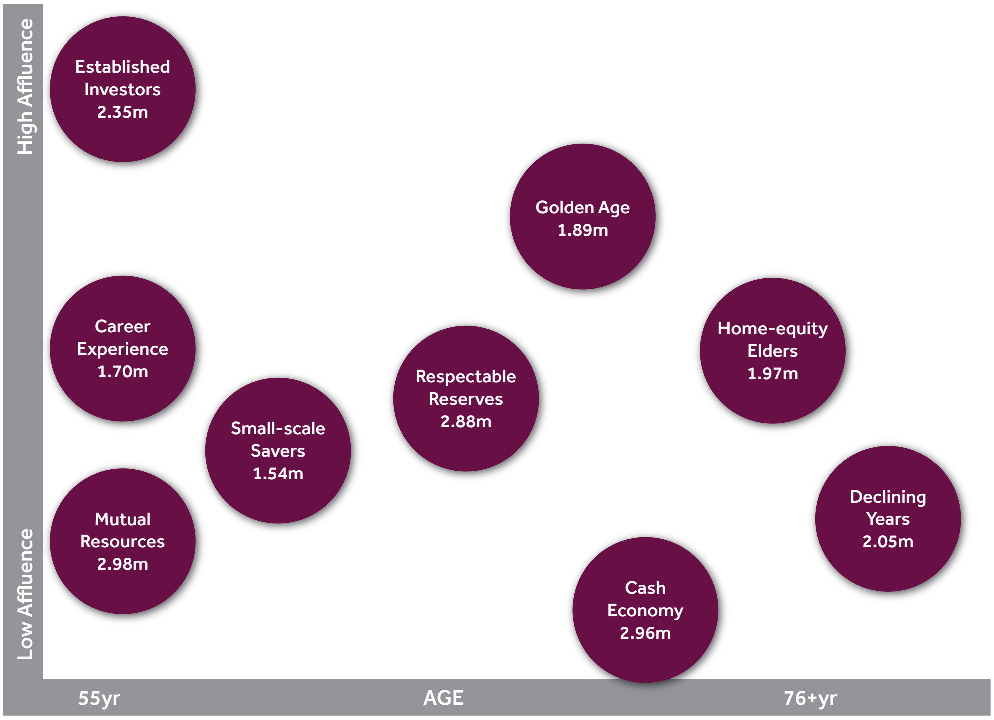
Segmentations provide a useful tool for thinking about the characteristics, behaviours and needs of the diverse range of people within the UK's ageing population. They cover the whole adult population, however within this we are able to identify those segments for individuals who are aged 55 years and above. Our researchers used the FCA's segmentation of the UK population to identify five segments of particular relevance to the Ageing Population Project, described as: Retired with Resources (14% of the population); Retired on a budget (7% of the population); Mature and Savvy (7% of the population); Living for Now (14% of the population) and Hard Pressed (10% of the population). These five segments do not provide a granular enough view of individual needs and characteristics, so in order to show a more detailed view of the ageing population, we looked at the latest version of Experian's Financial Strategy Segments (FSS 4) which uses an extensive data resource of just under 2500 data variables to give a picture of UK consumers based on their needs and wants, attitudes and aspirations towards financial products and services. It combines key socio-economic and demographic characteristics to classify UK adults into 15 segments and 55 distinct financial lifestyle types. The 55+ age group, selected as this is the youngest age a pension can be decumulated, is captured within nine of the 15 segments.

Segmentation can be used to gain a deeper understanding of the behaviour and needs of certain cohorts within society. Segmentation is always limited by the data contained within the segments which may not reflect the circumstances of individual consumers. It may not necessarily identify the specific harm or detriment experienced by consumers.

It is important to note that these segments are a view of the current adult population and their circumstances, however this is likely to change over time as different generations age.

Figure 1 illustrates the 9 relevant FSS segments aged 55 years or older mapped across the dimensions of affluence (level of total wealth) and age.

Figure 1



Descriptions of the nine segments

These are organised by age grouping in ascending order from youngest to oldest. The analysis and illustrative descriptions of the segments were carried out by Experian.

Established Investors – *Wealthy households who have accumulated substantial assets and are confident in financial management.*

Overview

Established Investors are older families who enjoy an excellent financial position. They have achieved professional success and have been rewarded accordingly. Their considerable holdings are carefully managed, and they value expert insight into the latest investment options.

Demographics

Most are married and in their forties or over. Some have children under 18, some have adult children at home, and others have none.

They are well-educated and work in high-status jobs as directors, professionals and senior managers. Some are self-employed or own their own business; others are already retired. Industries include financial services, legal services, media and communications and real estate.

Their highly priced homes are mostly properties with four or five bedrooms.

Financial position

These people earn high-level salaries in senior jobs, giving them sizeable disposable incomes (just under a quarter with over £2k per month). They have accrued many assets and continue to add to their portfolio.

They own upmarket homes either outright or with a mortgage (over a fifth have homes valued £900k+). They bought them some years ago and have seen very satisfying growth in property valuations, contributing significantly to their overall worth.

They take a great interest in business and personal finance and appreciate expert opinion. They are open to new accounts and are always searching for better ways to invest their money.

Financial product holdings

Many in this group have a premium current account for day-to-day transactions.

They have large amounts of savings in multiple instant-access savings accounts for easy access. They also have further cash-based savings accounts, including cash ISAs, premium bonds and fixed rate savings bonds.

They have multiple credit cards, but these simply provide a convenient way to manage payments and gain additional benefits. They have no need for credit.

Established Investors have sizeable investments and are always on the look-out for profit-making funds. They hold many different types of investment accounts, and some also have property and physical assets. Many use the services of financial advisers or wealth managers; others like to manage at least some of their money themselves through online platform providers.

If they have a mortgage, then the outstanding balance may be quite high. Many have a repayment mortgage, but some have an interest-only mortgage, which they are likely to pay off using earnings or investments.

Their pension funds are sizeable. Many have a personal pension or a Self-Invested Personal Pension (SIPP); some have final salary schemes.

They are well insured, with all the standard policies such as home and car. Many also have private medical and dental insurance, as well as annual travel insurance. Some need specialist insurance for expensive purchases.

Legal services are used for conveyancing and probate. They may need expert advice on inheritance tax matters.

Behaviour and attitudes

Should they decide to change an account or provider, they research their options thoroughly, using the websites of individual companies, discussions with family and friends and financial websites. They may use price comparison sites for utility providers.

They choose premium products and services, and buy the best-quality brands, purchasing some items without even looking at the price.

Before investing they consider the latest financial news and the wider economic outlook. They are happy to take calculated risks for greater returns.

Channel usage and media

They see the internet as a useful tool and like to access accounts and manage their finances online. The convenience and extensive choice offered by online shopping mean they frequently purchase this way. They are responsive to branded emails, online newsletters and direct mail from trusted companies.

They read broadsheet newspapers such as the Telegraph, The Times, The Financial Times and financial magazines, both in printed form and online, and notice adverts through these channels.

They aren't prolific social networkers, but some use LinkedIn for professional networking.

They watch very little television.

Future trajectory

This is the most stable group. Once people reach these levels of wealth they are highly likely to stay within this group.

Summary

- Older families with children (16% are aged 56-60)
- Professional or managerial roles
- High disposable income (21% with household income £150k+)
- Multiple active credit cards
- Large pension funds (16% with £500k+)
- High savings (24% with savings of £100K+)
- Have private medical insurance

Career Experience – *Confident older owners in comfortable homes with above average incomes that reflect their responsibility and experience.*

Overview

Career Experience are in the second half of their working life. They often rely on their own single salary and are working towards paying off their mortgage while building their savings. They may respond to relevant product offers via email and often read online newsletters.

Demographics

Often in their 40s and 50s, these people are less likely to be married. Many live alone. They tend to have lived at their current home for less than ten years, and most don't have children living in the household.

They are well-educated and have above-average jobs. Most work full-time. Many are in professional, middle-managerial and technical roles.

Financial position

These mature employees have achieved some success in their careers and are earning good salaries. This leaves them with an acceptable level of disposable income, with some money to enjoy and some to save.

They often live alone in homes worth a little more than the national average (just over a quarter in homes in excess of £325k). Some still have a way to go in paying off their mortgage.

They are making steady progress with their savings. While they don't have large amounts put away, they continue to increase their reserves when they can. These modest amounts add up over time and, along with the home they own, will eventually give them a good level of financial security.

Financial product holdings

They have a standard current account and like to earn interest when in credit. An overdraft facility is welcome – just in case – and access to online banking is important.

Most have a moderate level of savings in cash-based savings accounts, and they may have more than one instant-access account as well as cash ISAs and premium bonds. Some have investments as well – in shares and perhaps additional property.

They probably have more than one credit card and may make use of extended credit at times. Sometimes they use loans to finance a car or other larger purchases.

Their pension fund is growing gradually. Most have an employer's pension; some have a final salary scheme, but more have a contributory scheme.

They have an above-average level of insurance, taking out home and contents insurance, car insurance and often travel insurance. Some have pet insurance and life insurance, as well as private medical insurance through work.

Behaviour and attitudes

They tend to choose purchases based on both quality and price. They aren't particularly positive towards advertising and don't feel it influences their choices. However, they are quite responsive to branded emails and online newsletters and prefer email as a way for companies to contact them.

They are relatively comfortable with risk and take some interest in personal finance generally.

Channel usage and media

Career Experience rely on the internet, using it for online banking and for news and sport. They tend to buy their financial products online and like online shopping generally, making use of product reviews and other advice. They tend to go direct to a bank's website to apply for credit cards, mortgages or loans but research more widely first, perhaps on consumer financial advice sites.

They have a moderate readership of printed newspapers, tending towards broadsheets, but they may be more likely to visit newspaper websites. They make average use of social media.

They watch some television, preferring BBC channels and Channel 4.

Future trajectory

If savings don't materialise, members of this group may move into the segment Small-scale Savers

Summary

- Middle-aged singles (18% are aged 46-50)
- Average incomes (20% have a household income £40k-50k)
- Their mortgage is their biggest debt
- Have sizeable pension funds (8% have between £200k-500k)
- Broad range of savings products (15% with savings of £20k-50k)
- Invest in stocks and shares

Mutual Resources – *Mid-range families whose financial position is enhanced by the support of extended family or wider community.*

Overview

Mutual Resources are older families whose incomes don't provide for many extras. However, a collective approach within extended families or communities ensures some success.

Demographics

The older generation are often in their 50s and early 60s and married; the younger generation are under 30. A minority of households contain children aged under 18.

Mutual Resources usually live in three-bedroom houses.

Financial position

Mutual Resources rely on family or community for their continued financial progress.

They are mature families whose individual salaries tend to be below average and whose disposable incomes aren't high (59% have less than £250 per month). Some work in intermediate or manual jobs, while others own small businesses. Not all of those who are employed work full-time.

Many households have young adults still living at home. Often in these cases the younger generation can contribute to the household income, making finances more comfortable, although some are still studying and unable to pay their way.

Other households live in locations where business success or employment can depend on the local community.

Most own their home. This is usually outright or with only a small mortgage left to pay, which is a significant advantage for the family. Property values vary depending on location (one fifth are valued at £150k-£190k).

Financial product holdings

On average, individuals in this group have fewer financial accounts than others. Many of the younger generation haven't established their financial footprint yet, and not all members of larger families see a need for individual accounts. However, most have a standard current account for everyday banking and are likely to have an instant-access account for savings. Young people are more likely to open accounts in the near future.

Many have a credit card, some may have a store card, and others have student loans. Overall, this group's level of credit use is unexceptional.

A number have a small mortgage outstanding.

A higher than usual proportion don't have any pension provision. Those who do have a pension have a mix of personal pensions and employer schemes.

They make standard use of insurance, ensuring that the essentials of home, contents and car are covered, and sometimes use travel insurance as well.

Behaviour and attitudes

Not all are active and confident at switching. Some may turn to friends and family for advice on the best deals and for information on other products and services.

Some family members have a tendency to be brand-conscious and so buy based on name rather than price.

Channel usage and media

Internet use is split by the generations, with younger people using it more heavily for watching films, playing games, downloading music and engaging in social media. Those online in the household tend to notice internet advertising. Social media use also varies by generation, with the youngest most prolific, although some older members have been encouraged to join Facebook.

The younger generation often prefer companies to contact them by mobile or text. Many members of the older generation would rather receive an email or letter.

Television advertising is most likely to be noticed.

Future trajectory

Members of this group may become members of the segment Respectable Reserves if saving goes well.

Summary

- Extended families (14% age 56-60)
- Moderate household income (32% £30k-40k)
- Low outstanding mortgage
- Long length of residency
- The older people in this segment tend to support adult children
- Low levels of pensions (53% do not have a pension)
- Limited savings and investments (26% have no savings)

Small-scale Savers – ***Mature workers with the advantage of home ownership but with nominal savings to sustain their future income.***

Overview
Small-scale Savers are older employees who have worked solidly for many years but not saved significant amounts. They own their home, which provides some certainty in the years ahead. They may be interested in no-frills offers that provide good value.

Demographics
Most of this group is between 45 and 65. Many live alone; others are married and living as a couple. Any children from these families have grown up and left home.

They usually live in a three-bedroom terraced or semi-detached house (most commonly in the value range of £110k-130K) and are long-term residents of their homes.

They work in intermediate and lower-level jobs, often doing clerical or manual work.

Financial position
After many years in employment, these people continue to work in intermediate and lower-level jobs, earning below-average wages. Their disposable income isn't high, but they manage to meet day-to-day living costs.

Their home is modestly priced and stable in value. They have a relatively small amount to pay off on their mortgage, and some now own outright. Their home is their most significant asset and provides security for the future.

Their other reserves aren't high, however, and they haven't managed to save a great deal over the years. Those with benefits accrued in final salary pension schemes can probably look forward to a reasonable retirement. Those with personal pensions may not have saved enough yet to provide for their later years, and some may need to continue working for as long as they can.

Financial product holdings
Most have a current account, which usually has online banking facilities. They have an instant-access savings account and maybe other cash accounts, such as a cash ISA.

Most have few investments, but some have a higher level of investable assets. These people may have an endowment mortgage and therefore have an endowment or unit-linked policy to pay off the mortgage at the end of the term. The majority of those with a mortgage have a repayment product on a variable rate.

They usually have one credit card. They aren't great users of credit, perhaps using their card as a way of spreading costs. A few take out unsecured personal loans when necessary.

Their pensions are sometimes through employer schemes, and a substantial number have a final salary pension. Alternatively, they have a standard personal pension, which is probably modest in value. Some may view their home as part of their retirement income strategy, imagining they can downsize or release capital when needs must.

They have insurance for their home and contents and their second-hand car and may also have life insurance and pet insurance. Some take out additional cover for home emergencies and boilers.

Behaviour and attitudes

Small-scale Savers are quite active switchers, particularly for their home and motor insurance. They use price comparison websites, consumer financial advice sites and the websites of insurers to research alternatives.

They aren't fans of advertising and aren't particularly brand-conscious. They prefer to buy something that seems good value without paying a premium for a brand name or the latest technology.

They don't like taking risks and aren't ambitious. Time is important to them, though, and they don't like to waste it unnecessarily. They aren't especially interested in opening new accounts.

Channel usage and media

Although they aren't the most confident online, they make use of the internet. They probably have a laptop computer and use it to search for information, for online shopping and sometimes for online banking.

If they need a loan they are likely to go direct to a bank's website to make an application, although they might ask for information in a branch first. When contacting their bank, they prefer to use post or a landline telephone.

The main advertising they notice is on TV, which, along with radio, is their main source of news. They watch a reasonable amount of television, particularly ITV channels. Many don't read a newspaper, but those who do tend to buy the Daily Mail. They are relatively low users of social media.

Future trajectory

People in this group may move to the segment Career Experience if their financial position improves.

Summary

- Older singles (25% age 51-55)
- Empty nesters
- Long length of residency
- Low disposable income (35% £20k-30K)
- Low outstanding mortgage
- Low pension value (12% £18k-50k)

Respectable Reserves – ***Older couples and singles whose home ownership and savings will give them a margin of comfort in their post-working life.***

Overview

Respectable Reserves are older homeowners in their pre-retirement and early retirement years. They have a reasonable level of assets saved and with careful planning can look to a positive future. They appreciate traditional communications that contain sound financial advice.

Demographics

These people are mostly in their 50s and 60s. Many are married couples; a few live alone. They have lived in the same place for a long time, and their children have grown up and left home. They are more likely to struggle a little or a lot with day-to-day activities than other groups or to be in bad or very bad health.

Their jobs are, or were, in managerial and administrative roles.

Their homes are mid-range bungalows, semis and detached properties (most commonly in the £150-£225k range).

Financial position

These mature people are either in the last years of their working life or enjoying the early years of retirement. Some have cut down to part-time work as a step towards retirement. Their individual incomes are often below average, but couples enjoying joint incomes can achieve a comfortable standard of living. As their mortgage has been paid off, their disposable income is most commonly £1k-2k per month.

They have reasonable levels of savings and investments and look out for accounts with good rates of return. They don't want anything too risky, though – it has taken a lifetime of work to reach this position, and they want safe returns. Financial advisers and bank staff may help them with less straightforward investments.

Those at the point of retirement need to take decisions on how to use their pension savings to fund their later years. They are likely to look for support and advice on how best to achieve this.

Most are content with their standard of living. They can afford to go on holiday and run a decent car, and they are looking forward to their retirement years.

Financial product holdings

Many accounts are held jointly. They have a standard current account and at least one savings account – often more – with a bank or building society.

Many have a higher level of savings. These are held in a range of cash savings accounts, including cash ISAs, premium bonds and fixed rate savings bonds. They aren't particularly happy with the rate of return on these but know their capital is safe.

Some also have a moderate level of investable assets and may hold shares, unit trusts or other investment funds.

They like using credit cards and often have several, paying off the balance in full each month. They don't generally need credit and don't like to be in debt.

Of those not yet retired, those with a personal pension often have a reasonable fund accrued; others look forward to a final salary pension.

They like to be prepared and have good levels of insurance. Their policies include home and contents insurance, fully comprehensive car insurance with breakdown cover and often travel insurance. They also like additional cover for boilers, plumbing, appliances and other home emergencies. They use legal services to write their wills.

Behaviour and attitudes

Alternative insurance policies are researched via insurers' websites, and they may look at consumer financial advice sites for information and ideas.

They aren't keen on advertising and are unlikely to take notice of outdoor advertisements. Promotions on television and in newspapers are more likely to be seen and noted.

They manage their finances carefully and are generally risk-averse.

Channel usage and media

Respectable Reserves use the internet but aren't overly confident and sometimes worry about privacy. Financial products tend to be purchased offline, and for investments in particular they prefer a face-to-face discussion with someone who can explain the details and answer their questions.

They regularly read newspapers and like a variety of titles, especially the Daily Mail.

They watch a reasonable amount of television, often choosing the main channels. Some are members of Facebook and check it occasionally, probably to keep up with younger family members' news.

Future trajectory

Members of this group might move to the segment Mutual Resources or Home-equity Elders.

Summary

- Older couples/singles (24% age 61-65)
- Already retired
- Medium household income (33% on £20k-30k)
- Live in bungalows
- Medium pension fund value (9% £100k-200K)
- 25% with savings £50k+
- No outstanding debt
- Don't like to switch using online methods
- Some may struggle a little or a lot with day-to-day activities or be in bad or very bad health

Golden Age – *Fortunate elders on gold-standard pensions with money to enjoy now, and choices in the future.*

Overview

Golden Age are retired people who are able to make the most of the opportunities that life after work can bring. They have generous pension income to enjoy, and manage their considerable assets with care. They are likely to read editorials and newsletters that give investment advice and address retirement issues.

Demographics

These people are 65 and over. Many are still married; some now live alone. They have lived in their home – whether detached, semi-detached or bungalow – for a long time.

They had good careers in professional and managerial jobs and have high levels of professional qualifications.

Financial position

These older households enjoy a comfortable retirement lifestyle, having accrued substantial assets and pension benefits during their successful careers. Their retirement incomes are worth more than many people's salaries, meaning they have high levels of disposable income to enjoy.

They have very high amounts of savings and investments, which are held in a wide variety of accounts and funds. They are always on the look-out for profitable ways to invest their money. Many have obtained a tax-free lump sum from their pension savings at retirement, boosting their assets but demanding thoughtful management.

They own their home outright (most commonly in the value range £400k-£700k).

While they appreciate their good fortune, they are aware that no amount of money guarantees security, and that care needs requiring significant funding may arise in the future. They invest their money with these possibilities in mind, ensuring they leave their options open.

Financial product holdings

These people often have a premium current account with extras such as travel insurance and a fee-free overdraft facility.

They have a wide range of savings products, including multiple instant-access accounts and other cash-based savings accounts such as cash ISAs and fixed-rate savings bonds. They spread their cash assets across different organisations, ensuring none goes over the compensation limit.

Investments include many types of product, including investment trusts, bonds, unit trusts and Open-Ended Investment Companies (OEICs). They are likely to have sought advice about how best to invest their assets and may have consulted a financial adviser.

They use multiple credit cards, including upmarket store cards for convenience and added benefits.

They have insurance cover for their car, home and contents and also often have medical, dental and annual travel insurance. They often choose extra insurance for the home and home emergency cover, ensuring there is someone reliable to call if things go wrong.

They use legal services to write wills, and powers of attorney to ensure the smooth handling of their affairs in all eventualities.

Behaviour and attitudes

Golden Age are generally quite negative towards advertising, which they view as a waste of time. They stick with brands they like, which are usually well-known, and don't mind paying extra for quality.

They manage their finances well, reading articles about investment ideas, looking for advice, researching options carefully and monitoring the financial news. They want to invest their money profitably but don't want to take excessive risk.

They are quite responsive to direct mail from recognisable and trusted companies.

Channel usage and media

Golden Age are quite savvy digitally and rely on the internet a lot for information, communication and shopping. Some use online banking, and they may buy some financial products online; at other times they research online first and then apply face-to-face or by phone. They often prefer phone and letter for communication from companies. They don't use social networks.

Advertising in printed newspapers and magazines is most likely to grab their attention. They are heavy readers of printed newspapers, preferring broadsheets.

On television they tend to watch the BBC and various news channels.

Future trajectory

These people are highly likely to stay within this group.

Summary

- Older retired singles/couples (36% age 76+)
- Live in detached homes
- High disposable incomes (28% £30k-40k)
- Tend to purchase premium products
- Large pension fund (10% £500k+)
- Higher Level of savings (25% £100k+)
- No outstanding debt

Cash Economy – *Mature households with low wages when in work, leaving little to spare and a need for support.*

Overview

Cash Economy are mature households struggling to get by on minimal incomes (less than £15,000). They have few accounts and often prefer to use cash for payment. Television advertisements and discount offers through the door are more likely to gain a response.

Demographics
These people are most often in their 50s and 60s and may be married or live alone. Some households have adult children. They don't have children aged under 18.

Those in work are usually employed in low-skill jobs, perhaps in manufacturing, construction or retail. Most left education by the age of 16.

Financial position
These are older people with such low incomes that most pay nothing in tax. Many are dependent on State support and receive a range of benefits, including housing, disability or other health benefits.

Those who live alone have a particularly low amount to spend from week to week, and many are at risk of being unable to afford essentials such as fuel. They are concerned for their future and fear their financial situation might get worse.

Those who share homes with family or others can make money go further by combining their resources and dividing up bills and expenses.

They live in the lowest-value homes (most commonly below £70K), and most rent from a council or housing association.

The number in work can be low, sometimes because health prevents them from working and sometimes because they can't find jobs. Others are already retired.

Most have no savings to fall back on, and when necessary may use loans that they can access without needing a good credit history. They have low numbers of financial products and prefer to keep things simple, often using cash when shopping.

Financial product holdings
Some have a standard current account, but many only have a basic account.

They have very low levels of savings, and many have nothing put away at all. Some have a bank or building society savings account to keep their modest savings separate from day-to-day cash. A few have a credit card. They are unlikely to consider new accounts.

Pension provision is low. Those who do have a pension fund have little in it.

Credit is accessed via mail-order catalogues, home-collected loans and, to a small extent, credit cards. Sometimes they may need to apply for a Social Fund budgeting loan to see them through an emergency. Those with bank accounts may use an overdraft facility.

They have low levels of insurance, most often just a stand-alone contents policy. Many don't have a car. A few have loan payment protection insurance.

Behaviour and attitudes
They are most influenced by TV adverts and especially enjoy those that are entertaining and feature favoured celebrities. They may also be influenced by direct mail.

They are very cost-conscious when out shopping, with many preferring to use cash as a way to track spending. They like to be able to tell what they can afford by how much money they have in their purse or wallet.

They would like benefits and the minimum wage to be higher to give them a better standard of living.

Channel usage and media

Although some can be slightly overwhelmed by technology, many use the internet for browsing or accessing social media, and they notice online ads. They are unlikely to buy any financial products, but if they do then the purchase is more likely to be offline. They aren't confident about using price comparison websites.

They make moderate use of Facebook and may "like" company pages relevant to their needs for something in return.

When communicating with companies they tend to prefer the phone or a branch visit and a face-to-face chat.

Cash Economy like to listen to local radio stations. Some read tabloid newspapers, but others don't read any papers at all.

They often rely on television to keep them informed and may even admit to being addicted to it. TV advertising is by far the most noticed type.

Future trajectory

Members of this group are most likely to become members of the Declining Years segment.

Summary

- Older households (15% age 56-60)
- Receive numerous benefits
- Low property value
- Very limited savings and investments (34% have none)
- Very limited retirement provisions (57% have no pension fund)
- Rent from local authority/housing association
- A group more likely to struggle a little or a lot with day-to-day activities than other groups or be in bad or very bad health

Home-equity Elders – *Pensioner households whose financial security in retirement is boosted by outright home ownership.*

Overview

Home-equity Elders are seniors living stable retired lives, with modest incomes matched to modest spending. They own their home outright, which provides them with security and, if necessary, an asset. They aren't easily influenced but might respond to print advertisements in newspapers or in the post.

Demographics

This is the oldest group, with most people in their seventies or above. Many are widowed, but some are still living with their spouse.

These are very stable households and have lived in the same three-bedroom family home for many years.

Financial position

These retired couples and singles have modest pension incomes, but they also have low outgoings and don't lead extravagant lifestyles. This means their budgets are quite manageable and they have some spare for economical cars, holidays and pleasure. Most don't receive any benefits, but a few get council tax reductions due to solo home occupancy.

They are outright owners of their home (most commonly valued at £170k-£200k), and have some savings, which are mostly held in cash savings accounts.

They are conservative spenders and don't like uncertainty, so they plan their finances carefully and take out extra insurance to avoid unexpected bills.

Financial product holdings

Most have a standard current account without extra features and are very satisfied with it. They aren't looking for new accounts or financial products.

They have money in cash-based accounts. Many have one or two instant-access accounts, cash ISAs and premium bonds and might have a fixed-rate savings bond.

Some have modest additional investments, such as an investment bond with a life insurance company. But they don't want products that might be considered risky.

They have one or two credit cards and might have a card from their favourite store. They don't use credit.

Being well insured is important to them. They have insurance for home, contents and car and are keen to have breakdown cover. Travel insurance is also used. They are also the group most likely to take out additional home insurance – for example, home emergency, central heating, plumbing, electrics and water supply cover – to give easy access to help and avoid unpredictable costs in the event of a problem.

Behaviour and attitudes

Home-equity Elders manage their finances well and are good at budgeting and saving for more expensive items. They also avoid unnecessary expense by only buying new things when the old is worn out.

They do not tend to change providers but might phone around insurance companies to check prices. Their natural inclination is to trust financial organisations, which may lead them not to question their insurance premiums.

They are the group most negative towards advertising and tend to feel bombarded. They prefer to stick to brands they know and like and are seldom swayed by new products.

Channel usage and media

They are slightly overwhelmed by technology and aren't comfortable online. Some use the internet for email and browsing to look for information. They buy any financial products offline. They don't use Facebook.

They much prefer dealing with companies face-to-face or on the phone, and if an organisation needs to contact them then they like it to be done by letter. They are quite likely to notice direct mail communications.

Home-equity Elders are keen readers of printed newspapers, especially the Daily Mail and the Mail on Sunday. They notice advertisements in these publications and in magazines.

They rely on television to stay informed. They choose to watch the main channels and notice the advertisements on commercial channels.

Future trajectory

These people are likely to remain in this group, but a few may move into the Golden Age segment.

Summary

- Retired homeowners (50% age 76+)
- Low incomes (49% household income <£15k)
- Limited pension fund (41% under £18k)
- 24% with savings £50k+
- No outstanding debt
- Don't like to switch using online methods

Declining Years – *State pensioners in lower value (£100k or less) homes who must economise when money doesn't stretch beyond essentials.*

Overview

Declining Years are pensioners who have low incomes and few savings. They have established a budget and know what they can afford and when – a routine that mostly allows them to buy the things they need and to pay bills. They are receptive to traditional advertising and look for familiar brands at low prices.

Demographics

These older residents live in lower-value properties. Some are owners, while others rent from social or private landlords.

They had a low-level education and were employed in administrative and manual jobs during their working days. Some may struggle with day to day activities or be in bad health.

Financial position

This group represents older people who are in their 70s and above and who mostly live alone. They have low incomes and rely on the state pension, topped up with a small occupational pension or income from a personal pension fund in some cases. Some qualify for benefits such as pension credits and disability benefits.

They don't have much money left over once bills have been paid and essentials have been bought. A few have a small amount of savings in a cash-based savings account, but others have none. Some have the advantage of owning their lower-value home, but others still pay rent.

However, they are experienced in managing on a budget and don't have expensive tastes, so they spend within their means. They know the brands they like and can afford, and they stick with them. They also don't like debt, so they don't spend more than they have, preferring to go without if necessary.

There is concern within this group over the future. Maintaining their independence will inevitably get harder over time, and they will need to depend on others to provide care and support.

Financial product holdings

They have a current account and are satisfied with it. They may hold modest savings in instant-access savings accounts. A few might have small amounts of savings in a cash ISA or premium bonds. They are unlikely to have any investment accounts, preferring cash-based products for their modest savings, despite low rates of return.

Basic insurance is important to them. Renters have stand-alone contents insurance, while owners have joint home and contents insurance. But most choose not to spend money on additional insurance products.

They usually have one credit card but manage its use carefully, as they don't like being in debt. Some buy from mail-order catalogues and may spread payments this way.

Behaviour and attitudes

Declining Years aren't active switchers. They rarely buy financial products, and if they do then these might be arranged on their local high street.

They tend not to look for expert opinion before buying and aren't positive towards advertising in helping them to make purchasing decisions.

They tend to prefer using cash when out shopping.

Channel usage and media

They often find technology overwhelming and have concerns about security on the internet, so they don't go online much. They also make little use of mobiles.

They much prefer to speak to someone face-to-face about financial products and to visit a branch if they have questions or concerns. If a company needs to contact them then a phone call or a letter is preferred. They might respond to direct mail offers.

They are most likely to notice advertising on TV or in newspapers. They like reading the Daily Mail and the Daily Express. They also rely on television to stay informed and for entertainment.

Future trajectory

These people are likely to stay in the same group. A few may move to Home-equity Elders

Summary

- Older retired singles/couples (46% age 76+)
- Low disposable income (65% household income <£15k)
- Receive numerous benefits
- Very limited pension fund (39% under £18k)
- Limited savings and investments (24% have no savings)
- Don't like to switch using online methods
- A group more likely to struggle "a little" or "a lot" with day-to-day activities than other groups or be in "bad" or "very bad" health

Figure 2: Breakout Graphic Box

	Established Investors	Career Experience	Mutual Resources	Small-scale Savers	Respectable Reserves	Golden Age	Cash Economy	Home-equity Elders	Declining Years
Description	Older families with children	Middle-aged singles	Extended families	Older singles	Older couples/ singles	Elderly retired singles/ couples	Older/elderly households	Retired homeowners	Older retired singles/ couples
Employment status	Professional or managerial roles	Professional or managerial roles	Working	Working	Already retired	Already retired, formerly professional	Mixed: retired/ working	Already retired	Already retired
Income	High disposable income	Average incomes	Moderate incomes	Low disposable income	Moderate incomes	High disposable incomes	Receive numerous benefits	Low incomes	Low disposable income, benefit receipt
Pension provision	Large pension funds	Have sizeable pension funds	Limited pension fund	Limited pension fund	Large pension fund	Large pension fund	Very limited retirement provisions	Very limited retirement provisions	Very limited retirement provisions
Savings	36% £50k+	16% £50k+	11% £50k+	14% £50k+	25% 50k+	40% £50k+	4% £50k+	24% £50k+	10% £50k+
Mean residential property value*	£720,000	£270,000	£200,000	£150,000	£210,000	£400,000	£100,000	£200,000	£130,000
% in bad health	3%	4%	5%	5%	6%	4%	10%	5%	8%
% day to day activities limited	14%	16%	17%	18%	21%	16%	27%	19%	25%
Mean household income**	£102,000	£44,000	£36,000	£26,000	£34,000	£37,000	£14,000	£17,000	£12,000
Pension fund value	16%>£500k	20%>£100k	35%<100k	41%<£100k	19%>£100k	10%>£500k	27%<£18k	41%<£18k	48%<£50k
Savings and investments value	29%>£200k	30%>£50k	58%<£10k	22%>£50k	34%>£50k	38%>£50k	40% nothing	32%>50k	25% nothing
Tenure*: Home owner/mortgage**	77%	73%	57%	83%	82%	91%	33%	92%	59%
Tenure*: Rent**	11%	21%	20%	11%	8%	4%	58%	6%	38%

*the value of home owner property rounded to £10k **hh income rounded to £1k ***does not add to 100% as 'other' category excluded from table eg living with family

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