Intergenerational Differences
FLA Response

The Finance & Leasing Association (FLA) is the leading trade association for the UK consumer credit, motor finance and asset finance sectors. FLA member companies include banks, the finance subsidiaries of major manufacturers and independent finance firms. They offer credit services to customers from all social groups, via credit and store cards, personal loans, point of sale finance, motor finance and a number of other consumer credit products, as well as a wide range of leasing and hire purchase services to businesses of all sizes. In 2018, members of the FLA provided £137 billion of new finance to UK businesses and households.

FLA members provide financial products to consumers of all ages which are used for a variety of purposes from purchasing a car, to funding home improvements and buying household goods. We are keen to work with the FCA on its Intergenerational Project via Discussion Paper 19/2 (DP) and to explore how both market and cultural innovation, together with regulatory change might result in better financial outcomes at different stages of a customer's life.

Executive Summary

- As consumers face significant change in terms of how they are employed (more zero hours contracts/self-employment/a greater number of jobs over a lifetime) and how long they may need access to financial services, the regulatory framework will also need to adapt to ensure that access to finance remains available at different stages of their lives. The Government's current review of the Consumer Credit Act will be an important element of this change agenda.
- Recent years have seen increased innovation in the range of financial products available, with firms making use of the opportunities that Open Banking and App-based services provide. However existing products also have an important role to play in delivering financial services across the generations.
- Innovation is also needed in the engagement consumers have with their financial circumstances, to deliver a more open culture which allows individuals to talk about their finances.
- Increased use of behavioural economics and simple messaging/guidance on good money management could be an effective starting point to incentivising consumers to consider their finances at different points in their life. The regulatory regime could help facilitate this, by ensuring that the more onerous requirements for financial 'advice' are not inadvertently triggered when all that is needed is 'guidance'.
- A wide range of stakeholders (e.g., employers, local government and housing providers) should be engaged to work alongside the Government, regulators and the financial services industry in encouraging consumers to be more involved in their finances.

Responses to questions

Q1: *Are there other factors driving changes in the consumer needs of different generations (in addition to those we have listed in Chapter 3 of this paper) that we should consider? What are these?*

We agree that some of the major drivers of intergenerational change include demographics; house prices and real earnings; the labour market and student funding. Another aspect which might be worth considering is the composition of households and the impact this could have on supporting/subsidising finances across different generations. The DP looks at demographics but does not comment on whether the growth of, for example, single person households is another important factor as there could potentially be less of a 'support' mechanism if finances are stretched at any stage. Relationship breakdown could be another situation which results in households having to make major changes to their finances.

Q2: *Are there other ways in which the factors we have identified as driving changes influence how individuals from across different age groups build up and access wealth?*

There appears to be an increasing divide between those who are categorised as 'Baby Boomers' and those who are 'Millennials', particularly around salary expectations. Millennials may feel that they are at a significant disadvantage when comparing their circumstances to previous generations as they have substantial student debt and earn less than expected – this limits their disposable income and ability to raise capital. While the 'Bank of Mum and Dad' is fast becoming an avenue of wealth for some Millennials, this will not benefit those who do not have access to this kind of financial support.

There may also be some merit in providing the younger generation with more access to consumer education so that they can be better placed to understand the complexities of dealing with their finances from an early age. However, as noted above, there could be a range of circumstances that have an impact on an individual's financial situation.

Q3: *To what extent are financial services providers currently meeting the changing needs across different age groups? How could innovation in product design help meet changing consumer needs of different age groups?*

While the financial services sector has seen a great deal of innovation in recent years with an increasing number of App and web-based services (many of which seek to encourage better budgeting and savings), further innovation will be needed to fully meet changing customer circumstances. However, the use of this technology appears to be influencing the way in which consumers are now interacting with their finances, especially as access to information becomes more 'real-time'. But innovation in products is only part of the picture. Existing financial products already provide extensive support to consumers and raising the profile of the different options might usefully assist consumers. For example, individuals could be encouraged to save either via a new App which rounds-up all their purchases to the nearest pound and invests these small amounts in an ISA or by using a Direct Debit each month to take an amount and put it in a savings account.

New products might include financial services which link to specific life events. One suggestion at the FCA's Intergenerational Conference was an *Isa to Study*, which would ring-fence savings to help fund tuition fees. And with forecasts that Millennials and Generation Z may have several different careers over their lifetime, this could help fund additional qualifications - as required. Both parents and young people might be incentivised to take one out.

Q4: *Are there any barriers (including FCA regulatory barriers or barriers to competition) that are adversely affecting access to, and use of, financial products that would meet new and changing consumer needs? Are these affecting particular age groups? If so, in what way? How should we address these while ensuring consumers still receive an appropriate degree of protection?*

One regulatory area which requires updating is the Consumer Credit Act 1974. The Government's current Review of the CCA provides an ideal opportunity to ensure that the regulatory framework for consumer credit does not impede firms from developing new products to cater for changing circumstances across the different generations. The Act is over 40 years old and would not currently readily facilitate firms being able to introduce new versatile and adaptable services, reflecting customers' needs.

Q5: *Is there anything more that we could do to encourage and enable positive innovation in these sectors, or to enhance competition in the interests of consumers?*

See Question 4 above and the need to update the Consumer Credit Act 1974.

Further work should be undertaken with the Behaviour Insights Team (BIT) to explore how behavioural economics might be used to 'nudge' consumers to think about (and take action on) their finances at different points of life. UK consumers need help in acquiring a habit of better managing their finances and the BIT could usefully share their expertise in this area.

Q6: *Is there any market or firm behaviour that causes or may cause potential harm to consumers? For example, is industry failing to recognise varying needs of consumers from different age groups and as a consequence, of this:*

a) *offering products which may be unsuitable to certain age groups*

b) *excluding, discriminating against, or failing to advance equal opportunity between certain age groups for no legitimate and objectively justifiable commercial reason (or where the reason is potentially legitimate but the approach is not proportionate)*

c) *otherwise treating certain age groups unfairly?*

We are not aware of such behaviour. As noted above, consumer credit products are available to a broad range of customers across all age groups over 18 years old.

Q7: *Are there areas related to intergenerational issues which fall more appropriately to Government or another public body, but in which, in accordance with our objectives, we can play a role? If so, which ones and in what way?*

The Government, together with other stakeholders, could play an important role in fostering a more open environment which resonates with consumers of all ages and encourages them to both think about their finances and take action on a more regular basis.

An overall policy should be developed setting out the key message and when (and how) these would be delivered at different stages of life. A useful precedent is in the health sphere. It is widely known that individuals should eat five portions of fruit a day, not drink more than 14 units of alcohol per week, walk 10,000 steps a day and will be called for a mini health check after the age of 55. Simple messaging on good financial budgeting/management could be delivered on a similar basis, for example, when arriving at/leaving further education; on becoming a parent; when buying a home and approaching retirement. More touch-points might arise in those life-stages where finances are likely to be under more pressure, for example, Generation X ((1966 to 1980). Simple messaging might include ‘saving 20% of your salary into a pension’ to fund retirement’ – while not everyone may be able to do this, it provides a useful metric an individual could use. Further metrics could be developed.

Finance & Leasing Association
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