

# Beyond customer outcomes

A Royal London policy paper looking beyond product outcomes to a broader view of how we help improve customers' standard of living in retirement.



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## Introduction

This latest policy paper from Royal London discusses the importance of driving positive change in the financial services sector to protect the standard of living for this, and future generations. As we move beyond a focus on product outcomes, we highlight key issues such as building financial resilience and choosing responsible investment strategies, with the ultimate aim of improving people's standard of living.



## Context: challenging times

We live in challenging times – facing societal impacts from the pandemic, climate change, an ageing population, and other major issues.

As the UK population ages, there are increasing numbers of people in retirement, relative to those in paid employment. According to the charity Age UK, there are nearly 12 million people over the age of 65, and this number is likely to increase significantly over time<sup>1</sup>. By 2030, 1 in 5 people in the UK will be over age 65<sup>1</sup>. The charity also estimates that there are now 2.1 million pensioners living in poverty.

Our ageing population creates growing economic problems for the UK, as relatively fewer people will be working and paying tax to support those who don't.

Another problem for the nation is vulnerability among individuals, especially if they are unprepared financially.

In fact, the UK is already experiencing significant challenges in this respect. The Financial Conduct Authority (FCA) reported in its **Financial Lives 2020 survey**<sup>2</sup> that 27.7 million people in the UK (around half of the adult population) are showing characteristics of vulnerability. Between March and October 2020, the number of UK adults showing low financial resilience grew 35% to 14 million – partly due to the ravaging effects of the COVID-19 pandemic<sup>2</sup>.

Alongside this, we all face growing concerns about the effects of climate change. Extreme weather conditions and damage to air quality are just two of the potential impacts. There is increasing consensus that the responsible investment of pension assets is part of the solution here – otherwise the current working generations will face a very uncertain environment in which to live out their retirement years.

It's clear that action is needed to tackle these issues – financial and environmental – and indeed there is much work underway already. We believe it's time to join up these efforts in a way that works best for customers.



**14 million**  
UK adults showing  
low financial resilience<sup>2</sup>



**2.1 million**  
UK pensioners living  
in poverty<sup>1</sup>



**1.5°C**  
limit on global warming  
by 2050 called for by  
the UN Paris Agreement  
on Climate Change

Source 1. [https://www.ageuk.org.uk/globalassets/age-uk/documents/reports-and-publications/later\\_life\\_uk\\_factsheet.pdf](https://www.ageuk.org.uk/globalassets/age-uk/documents/reports-and-publications/later_life_uk_factsheet.pdf)

Source 2. <https://www.fca.org.uk/publications/research/financial-lives>

## Building financial resilience

The FCA's consultation on a new Consumer Duty (CP21/13) comes after many years of developing regulation that directs financial services firms to look after the interests of their customers. It proposes that providers need to truly put themselves in the shoes of their customers – and consider whether they would be satisfied with the product and service received. The FCA expects all firms to have customers at the heart of their business.

Specifically, the FCA proposes that the new Consumer Duty would require firms to:

- **Ask themselves what outcomes consumers should be able to expect from their products and services.**
- **Act to enable rather than hinder these outcomes.**
- **Assess the effectiveness of their actions.**

It proposes that firms take all reasonable steps to help customers pursue their financial objectives – in essence, helping people to build financial resilience.

The FCA will expect a higher standard for the culture of firms and their conduct. This goes beyond any previous standards, and effectively raises the bar from Treating Customers Fairly to Treating Customers *Well*.

As a mutual, Royal London acts on behalf of its members, not shareholders, so we fully embrace such a move. With our uninterrupted focus on customers, we will prioritise this new principle. We will not only seek to offer good quality products but also promote and facilitate guidance and advice, enabling customers to make effective and confident choices. Ultimately, our goal is to improve people's financial resilience for later life, as the population ages.

Royal London is already engaged in a number of initiatives to help improve financial resilience, such as our [‘How to Die Well’](#) campaign on end-of-life issues, our [Changemakers programme](#) championing social enterprise, and our recent [‘Exploring the advice gap’](#) research into improving the availability of financial guidance and advice.



The ‘How to Die Well’ campaign



The ‘Changemakers’ programme

## Ensuring responsible investment

Alongside the FCA's work on product outcomes, there has been a growing consensus around the need to consider the Environmental, Social and Governance (ESG) aspects of how firms invest money on the customer's behalf.

Most high-profile among these aspects is the work being done to tackle climate change – reducing carbon emissions in the lead up to 2050. Many firms have made commitments to 'net zero' by 2050, Royal London included. We have also set ourselves interim targets to ensure we are well on track over the decade ahead.

It would be easy to bring these targets forward by simply divesting from high-carbon emitting companies, but to do so might simply hand the problem to others; who may be less responsible owners. Such companies need to be part of the

solution, so instead, we advocate engagement to bring about change.

But financial services firms also have a role to play in influencing how we bring people on this journey to net-zero in a way that is inclusive and fair – according to the internationally endorsed Just Transition framework.

Various pieces of legislation have been introduced in recent years to ensure that asset managers, pension scheme providers and trustees are considering the different aspects of ESG – and reporting on these to customers in a way that is meaningful. Ultimately, we are heading towards a much more solid framework to ensure that money is invested responsibly, for the good of the planet and for society.

## Working for a Just Transition with the UK energy sector

The concept of the Just Transition aims to ensure that social issues are taken into account in moving to a low carbon economy. Rapid climate action that limits global warming to below 1.5°C prevents the worst human and economic costs of climate change. The Just Transition was part of the Paris Agreement signed in 2015.

On behalf of our customers, Royal London Asset Management is a large investor in the energy utilities sector. We believe energy utility companies should develop formal Just Transition strategies to manage social risk and ensure they continue to deliver good value for society and their investors. For this reason, we have engaged with the sector since 2018.

In 2020, we worked with leading energy provider SSE to help them launch a pioneering Just Transition Strategy – the first of its kind in the sector. We hope to influence many more firms to produce something similar.



## Improving customer outcomes

In its consultation on a new Consumer Duty, the FCA specifies four areas where financial services providers should aim to provide better customer outcomes (see panel). We support this – and want to go even further.

The FCA also asks that firms take all reasonable steps to avoid foreseeable harm to customers. Both climate change and poor financial resilience will cause harm, so at Royal London we believe we must also take action on these considerations if we are to achieve the best possible customer outcomes.

Looking at all of this from a customer's perspective, consider two of the possibilities of what a customer outcome could look like in retirement:

**Scenario A:** If I save all my life with a suitable product that generates good returns, I might have a large pension pot to last me in retirement. I have options as to how I use it to do the things I want to do in retirement, whether that's adventure holidays or relaxing in the garden.

But if climate change has left me with a house that floods all the time, or the city I live in has such terrible air quality that I can barely venture outside, then my standard of living is poor, even though I had a good product outcome.

**Scenario B:** Perhaps we solve the climate change crisis. Maybe cities are full of electric cars – or indeed they are largely pedestrianised. My boiler runs off clean energy rather than gas. Maybe flooding is largely under control thanks to a reduction in volatile weather. Global warming has been stopped in its tracks.

But I didn't save in a suitable product generating good returns, or I wasn't adequately supported with guidance or advice to make good decisions about my income. As such, my product outcome is poor and my standard of living will be adversely affected.

So it seems clear that a truly good outcome has to avoid the potential negative impacts of these scenarios, and combine the positive aspects of both. This will help people become more financially resilient to maintain a good standard of living over the long term, while investing responsibly to improve the world in which we will all live.

### 4 customer outcomes called for by the FCA:

**1. Communications** that equip consumers to make effective, timely and properly informed decisions.

**2. Products and services** that are designed and sold specifically to meet the needs of consumers.

**3. Customer service** that meets consumer needs and act in the consumer's interest, to realise product and service benefits.

**4. Price and value** of financial products and services that represent a fair deal for consumers.

(Source: A new Consumer Duty FCA, 2021)

## Together for good futures

In summary, Royal London welcomes the work from the FCA in improving **outcomes for customers**.

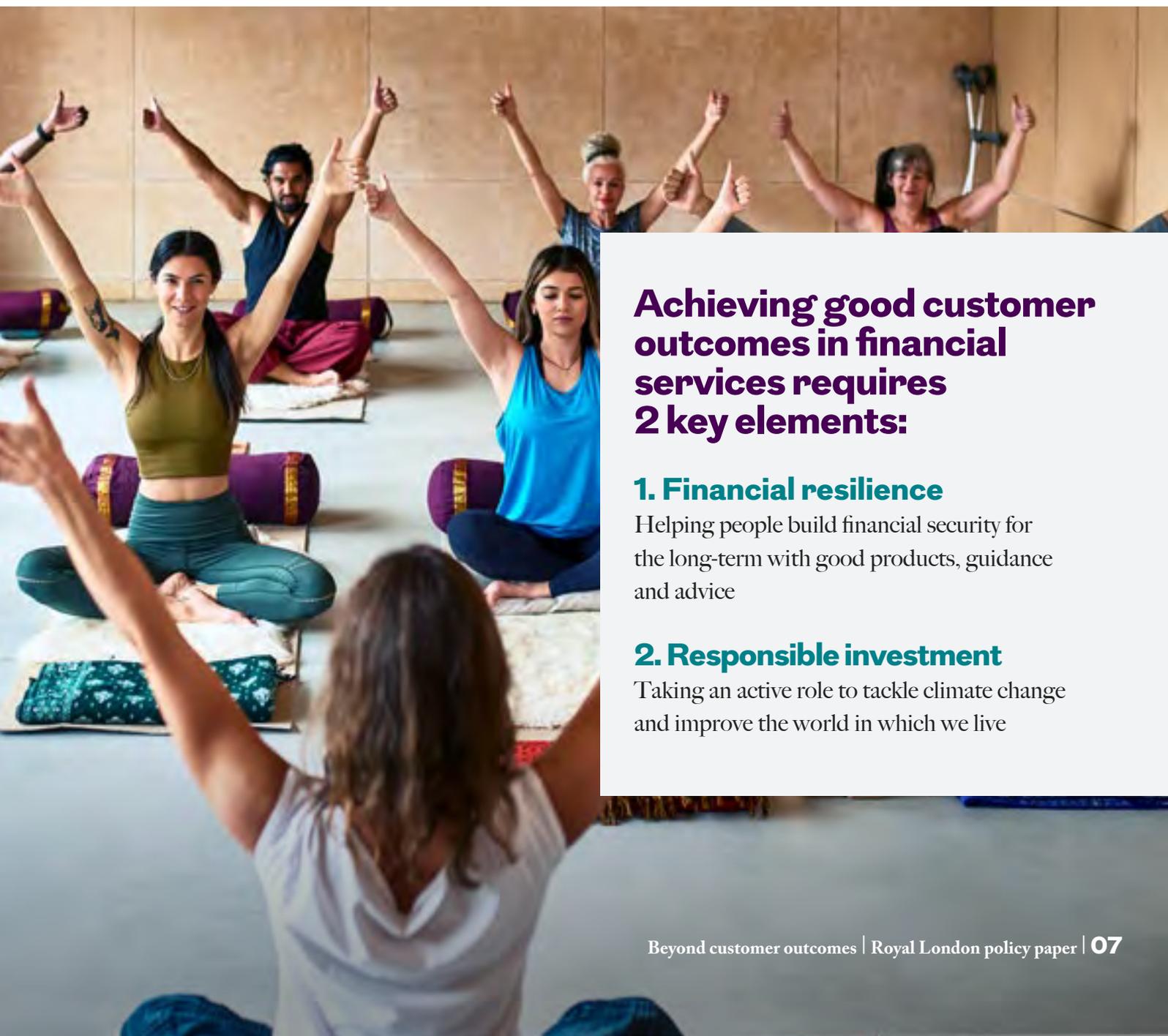
We also believe that we should focus on customers' standard of living - our "consumer duty".

This should include a commitment to **responsible investment** on the customer's behalf - and helping them to build long-term **financial resilience**.

So our duty to customers is about the products and services we offer, but also the investments we make and how that improves the environment we all live in.

Only by bringing these elements together can we truly achieve the best possible customer outcome; a good standard of living.

For more information on related issues see [www.royallondon.com/mutuality](http://www.royallondon.com/mutuality)



### Achieving good customer outcomes in financial services requires 2 key elements:

#### 1. Financial resilience

Helping people build financial security for the long-term with good products, guidance and advice

#### 2. Responsible investment

Taking an active role to tackle climate change and improve the world in which we live

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**Disclaimer:**

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