TREASURY SELECT COMMITTEE INVITATION TO COMMENT: "CONSUMERS' ACCESS TO FINANCIAL SERVICES INQUIRY LAUNCHED"

DECEMBER 2018

1. INTRODUCTION

1.1. Fair By Design welcomes the Treasury Select Committee's invitation to comment on the inquiry into "Consumers' access to financial services inquiry launched".

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

1.3. For more information about this response please contact Carl Packman, Head of Corporate Engagement at Fair By Design c.packman@barrowcadbury.org.uk

2. ABOUT FAIR BY DESIGN

2.1. Fair by Design is a movement dedicated to reshaping essential services: energy, finance, and insurance, so they don't cost more if you're poor.

2.2. People in poverty pay more for a range of products including expensive energy tariffs for pre-payment meters, high cost loans, rent to own products such as kitchen appliances, and insurance in poorer postcodes. This is known as the Poverty Premium.

2.3. We collaborate with industry, government, and regulators to design out the Poverty Premium, and raise awareness amongst the public to bring about change.

2.4. Our venture fund provides capital to help grow new and scalable ventures to innovate the market.

2.5. Fair by Design was conceived by the Joseph Rowntree Foundation and Big Society Capital and is being led by the Barrow Cadbury Trust.

Key recommendations and asks in this response:

- We want financial services to invest in, as a minimum, tools like E-On's ThermCERT, and make sophisticated use of data, in order to identify potential consumer vulnerability before it arises
- We want firms and regulators to include exposure to the poverty premium as an indicator of potential vulnerability, or vulnerability proper, in the future
- We support the move for a regulator (most likely the Competition and Markets Authority) to lead on collecting and publishing up-to-date information on the poverty premium
- We want agencies to explore how employers could refer employees to forms of affordable credit, in the way regulated social landlords (RSLs) are able to since the last budget
- We agree there should be greater partnership working between credit unions and the post office network to strengthen the capacity to reach unbanked individuals, and those at risk of financial exclusion.

1. How should financial service providers define 'vulnerability'?

The definition of vulnerability and the practical application of that definition

Fair By Design concurs with the Financial Conduct Authority on the definition of the vulnerable consumer: "someone who, due to their personal circumstances, is especially susceptible to detriment, particularly when a firm is not acting with appropriate levels of care"[1].

Similarly, we concur with the viewpoint of the Money Advice Trust on the definition and practical application of the term 'vulnerability'.

We are particularly influenced by the way in which the Trust identifies signs of vulnerability. The three factors they use are the following:

- Individual factors: the individual factors that put someone in a position of vulnerability, such as having a disability
- Wider circumstances: other relevant factors at play, like a sudden change in household or social circumstances
- Agency inaction (or wrongful action): something that another agency, like a creditor, has done or not done to put someone at risk of vulnerability[2].

The reason we find these elements so useful is that it recognises the various different factors that puts someone at risk, as opposed to the onus to ensure against being put in a vulnerable situation being on the individual entirely.

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[1] https://www.fca.org.uk/your-fca/documents/occasional-papers/occasional-paper-8
[2] http://www.moneyadvicetrust.org/media/news/Documents/Vulnerability%20Guide%20for%20Advisers.pdf

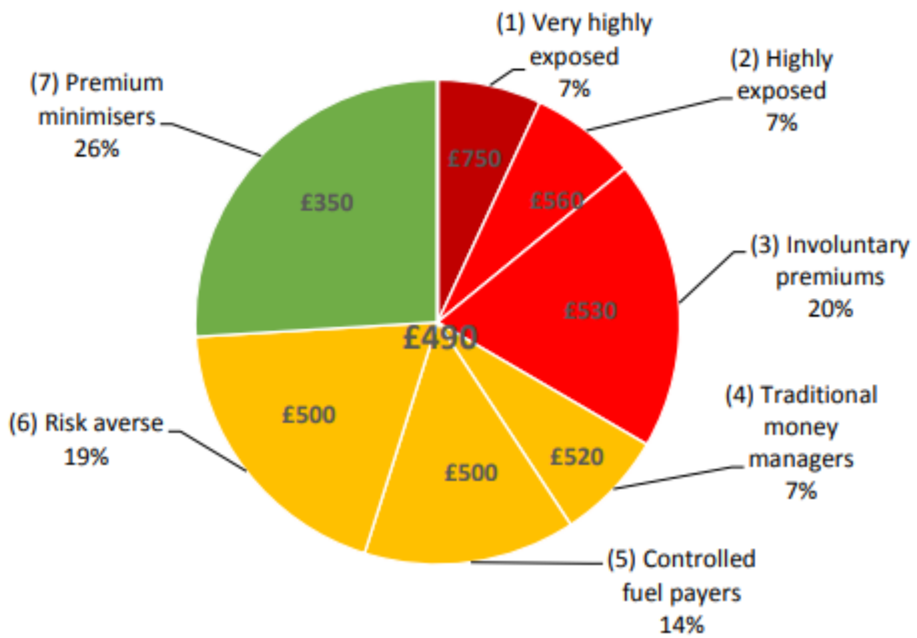
Using this definition recognises the part played by all organisations to ensure their processes don't exacerbate the risk of someone being put in a vulnerable situation.

We are also influenced by the way the Trust defines the different types of vulnerability:

- Potentially vulnerable: where someone is currently able to make informed decisions about, for example, their finances, but whose circumstances could later change resulting in a loss of the ability to make those decisions
- Vulnerable: individuals who are currently in a situation which means they are more likely to experience harm, loss, or disadvantage than other consumers
- Particularly vulnerable: individuals that are at a greatly heightened risk of experiencing detriment compared to the majority of vulnerable individuals.

With regards to the poverty premium, and the extra costs paid by certain low income households for their essential products and services, research by the University of Bristol has not only identified average costs of the premium and the proportion of low income households that are exposed to it, but also degrees of exposure more broadly to different poverty premiums. The figure below gives an indication:

Figure: Seven clusters of exposure to the poverty premium



From Bristol researchers:

"A quarter of low-income households in our survey incurred an average premium of £350 per year. A further two clusters each incurred an average of £500 with further clusters spending an average of £520, £530 and £560 on the poverty premium each year. The analysis identified a small cluster of low-income households (seven per cent) who are very highly exposed and incurred an average annual premium of £750 (1.5 times the premium for low-income households as a whole)."[3]

Individuals paying higher prices for their individual essential services is one clear indicator that they are at risk of vulnerability and/or are potentially vulnerable (e.g. through losing control of their finances, risking arrears, risking increasing their costs as a result, and potentially going without those essentials in the case, for example, where people are having to make the choice between heating or eating). Here there is a role for businesses providing those essential services: invest in better tools to identify vulnerability and include as an indicator of vulnerability or potential vulnerability paying more for utilities when on a low income.

As far as corporate best practice is concerned, we are particularly supportive of the way in which E-On uses data to identify vulnerable and potentially vulnerable consumers: their ThermCERT tool uses information about thermal efficiency using satellites, allowing decisions makers to pinpoint areas across the country where a large number of properties are losing heat. They then combine thermal efficiency data with aggregated deprivation and demographic data, housing data and the company's own historical obligation data to build a complete picture of communities across the country, giving them the ability to spot areas where the likelihood of there being a large number of vulnerable households is strong[4]. We would want to see tools like ThermCERT and the sophisticated use of data to be advanced explicitly for the priorities of consumers by financial services firms, too.

They also use software that picks up on keywords which may indicate vulnerability so this can be used to assess staff performance and feed into training. Other firms do this as well[5].

In addition to paying *individual* poverty premiums being an indicator of potential vulnerability or vulnerability proper, an even greater likelihood of this is exposure to *more than one* of the poverty premiums. As the Bristol research shows some low income households are more exposed than others. To identify this would require data showing both exposure to the poverty premium and the proportion of that individual's/household's income being spent on their outgoing essential costs. We support the move for a regulator to lead on collecting and publishing up-to-date information on the poverty premium. In our roadmap we called on the Competition and Markets Authority (CMA) to lead on a partnership between regulators on removing the poverty premium in all its forms[6]. In lieu of that information, we believe firms and regulators should include exposure to the poverty premium as an indicator of potential vulnerability or vulnerability proper in the future.

From the Fair By Design roadmap: "The Competition and Markets Authority (CMA), which

[3] https://bristol.ac.uk/media-library/sites/geography/pfrc/pfrc1615-poverty-premium-report.pdf
[4] https://www.eonenergy.com/blog/2018/October/satellite-images-technology
[5] https://www.fca.org.uk/publication/occasional-papers/occasional-paper-8.pdf
[6] http://fairbydesign.com/wp-content/uploads/2018/09/FbD-Roadmap-Artwork-Web-with-revision.pdf

has been a leader in looking at the Poverty Premium, should lead on a partnership between all relevant regulators to reduce and ultimately remove the Poverty Premium in all its forms. It could start with the higher prices low income consumers pay for essential services, including the extra cost of customer loyalty, learning from good practice in each of their respective sectors. Where they are unable to act they should publicly hand over these problem areas to the Government so it takes remedial action." http://fairbydesign.com/wp-content/uploads/2018/09/FbD-Roadmap-Artwork-Web-with-revision.pdf

Exclusion and the propensity towards vulnerability: the case for a 'duty of care'

For this consultation response we explored the views of some of our ambassadors (composed of people that have lived experience of the poverty premium) and others. We spoke to Shirley who described to us how her experience of problems with access to financial services impacted her personal circumstances (including a disability – an indicator of potential vulnerability):

"The main way I feel excluded is down to my personal circumstances as a housing association tenant in receipt of benefits. I am not considered a suitable risk for the better deals on offer for others e.g. home owners. With my previous bank, they closed the local branch. The nearest branch is now 10 miles away. Although you could still access basic services via the Post Office, such as deposits and withdrawals, if you needed face to face help it's too far to go, especially having a disability. Furthermore, the number of free to use ATMs is also reducing, so accessing your money is becoming more difficult. This is also compounded by the closure of local Post Offices that were also able to provide this service. So folk are having further to travel to access their money, or may be obliged to pay for using an ATM that charges you for each withdrawal."

For reasons like this we feel the case is made for financial services providers to have a 'duty of care' for its customers. Not only do firms need to appreciate that certain vulnerabilities will impede upon a consumers ability to make informed decisions about the products or contracts into which they are entering, but that very difficult financial circumstances create conditions whereby it is more difficult to make those informed decisions as well. Therefore someone in very difficult financial circumstances should be considered more at risk of experiencing vulnerability and as a result firms should ensure a duty of care is provided to determine whether that consumer is not making decisions that increase their risk of harm.

As the Financial Conduct Authority put it:

"Customers need to clearly understand the nature of the product they are buying, including key exclusions and restrictions. There is a particular need for a duty of care in relation to consumers who are identified as less sophisticated in terms of ability to understand and process information. Firms have a responsibility to ensure that customers have an appropriate understanding of the key exclusions of their policy."[7]

With particular reference to credit and financial services, allowing more organisations to actively refer individuals to ethical and affordable sources of credit means that the risk of those individuals taking on inappropriate or unaffordable credit products is greatly reduced. Therefore we support the simplification of regulation that now allows Regulated Social Landlords (RSLs) to refer to sources of affordable credit, where they previously were not allowed (featured in the last Budget)[8]. We would be interested to explore how employers could also be able to directly refer employees, where necessary, to affordable forms of credit, while detailing what existing rules helps or hinders employers to do this currently.

2. Are certain groups of consumers excluded from obtaining a basic level of service from financial services providers?

Bank branch closures: the impact

For insight into this question we refer to two pieces of previous research. Firstly by the University of Nottingham:

- There was a net loss of nearly 7,500 bank and building society branches between 1989 and 2012; more than 40% of all branches. Since 1995 over 4,800 branches have been lost and more than 1,800 (or 15%) in the period 2003 to 2012 alone.
- Areas with the highest rate of closure (Traditional Manufacturing) lost branches at a rate 3.5 times higher than areas with the lowest rate of decline (Suburbs and Small Towns) in the period from 2003 to 2012.
- Areas with above average rates of branch closure (1995- 2012) are largely urban and notably less affluent. The two areas that experienced the largest decline (-39%), Traditional Manufacturing and Built-up Areas, are characterized by unemployment rates and levels of renting from the public sector that are far above the national average[9].

Then also from June 2014, research by YouGov for the British Bankers Association found that 58% of people said that a branch is important, with 57% "citing its necessity for discussing issues face-to-face."[10]

For this consultation response we explored the views of some of our ambassadors and others. We spoke to Shirley who, as previously mentioned, described to us her experiences of bank branch closure:

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[7] https://www.fca.org.uk/publication/occasional-papers/occasional-paper-8.pdf (p.47)
[8] https://www.gov.uk/government/publications/budget-2018-documents/budget-2018
[9] http://eprints.nottingham.ac.uk/2199/1/ChangingGeographyofBritishBank%26BuildingSocBranchNetworks2003-2012_FINAL.pdf
[10] Referenced in https://financialhealthexchange.org.uk/wp-content/uploads/2016/07/Abandoned-Communities.pdf

"With my previous bank, they closed the local branch. The nearest branch is now 10 miles away. Although you could still access basic services via the Post Office, such as deposits and withdrawals, if you needed face to face help it's too far to go, especially having a disability. Furthermore, the number of free to use ATMs is also reducing, so accessing your money is becoming more difficult. This is also compounded by the closure of local Post Offices that were also able to provide this service. So folk are having further to travel to access their money, or may be obliged to pay for using an ATM that charges you for each withdrawal."

Financial service providers and consumer communications

We fielded views from ambassadors on this. Views focused on the ways that banks communicated via ATMs or bank statements. They told us:

Lucy: "I have often felt confused by the way my bank communicates to me. At the ATM they say you've got this amount but the amount you've got to spend is different. It can be confusing. They don't write pending. I need to see it black and white on the screen."

Sarah: "Sometimes I wish they would write simpler. Not a lot of people have someone else in the house to help with understand the words they use, say on bank statements. Like Elderly people. Or people with [learning] difficulties. Even teenagers often don't understand."

The Post Office network and financial services provision

For some people using a post office is an alternative to using a bank, particularly with use of the Post Office Card Account (POCA). Not using a bank account can either be a choice, or because of exclusion. One ambassador we spoke to for this consultation told us that a Post Office (and Credit Union) is used by them as an alternative financial service. But for them that does come at a cost:

Kelly: "I have a Post Office account and a credit union account. It isn't easy to get a bank account. People like me don't have a passport. I can't do online banking. It does stop me from doing things but it is my choice. I don't trust [banks]. Can't do Direct Debits – there is a charge."

Rachel: "In our area, they've closed lots of local branches. Neither local village to me has a bank. I don't drive. Though they do have a Post Office."

Use of the post office, via POCA, has historically been used by people unable to access a bank account. For certain people this is becoming even more necessary as bank branches close down.

To ensure people have access to a financial service lifeline, we agree with representatives of the credit union trade body ABCUL that there should be greater partnership working between credit unions and the post office network to strengthen the capacity to reach unbanked individuals, and those at risk of financial exclusion. Also, to enable this link-up, to build a central shared banking platform for credit unions would be required which would then provide the conduit through which credit unions could link to the Post Office's Horizon platform[11].

FinTech and access

Fair By Design is a fund as well as a campaign. One investee of our fund, Wagestream, is innovating around bringing financial services *to* people for their convenience. Wagestream gives employees the power to stream their earned wages into their accounts whenever they need it through a simple, instant app. This helps people who are waiting for their income to be paid and reduces the risk of needing to borrow at the same time. This contributes to finding solutions against use of high cost credit.

We also see Pockit as delivering good practice in this space (note: Pockit is not an investee of the Fair By Design fund). Users of Pockit can deposit cash at one of their 25,000 PayPoints across the UK, also allowing a shop assistant within the PayPoint outlet to be able to add the funds to your account via their terminal. The maximum cash deposit amount per day for Full Limit Accounts is £249. The maximum cash deposit amount per day for Simple Limit Accounts is £200. While we would prefer it if people had access to their own bank to do this, the reality is different and so we need FinTech innovators like Pockit to fill that space – which they do extremely well, on platforms many people prefer.

3. Do vulnerable consumers pay more for financial services products?

For this section the principle evidence basis comes from Bristol University's flagship research in 2016 describing the poverty premium. We do not need to recreate what they have provided – which is published here: https://www.bristol.ac.uk/media-library/sites/geography/pfrc/pfrc1615-poverty-premium-report.pdf

With that being said we print here the share of the annual poverty premium by low income households incurring it to give an indication of what it is:

[11] http://www.abcul.org/media-and-research/consultations/post-office-mutualisation

Table: Share of the premium annual poverty premium cost by premium type

Premium type	Low-income households incurring this %	Average premium per low-income household £ / year	Average premium as a share of the total %
Use of prepayment meters	33	£38	8
Non-standard billing methods	50	£33	7
Not switched to best fuel tariff	73	£233	48
Paper billing	49	£12	2
Area-based premiums	73	£84	17
Insurance for specific items	23	£27	6
Access to money	29	£9	2
Higher-cost credit	16	£55	11
Total	**99**	**£490**	**100**

Source: Survey, n= 947, weighted. Note. Figures may not sum correctly, due to rounding.

In our roadmap, we make the following recommendations of the various different stakeholders:

Businesses providing essential services and products should:

- Commit to 'Poverty Premium proofing' all their products and services to ensure low income customers aren't paying more for essentials. Examples include maintaining free cash machines in all areas, or creating a basic, low cost contents insurance product.
- Invest in making sure all products and services are suitable for people in poverty by working directly with low income consumers and customer user groups to bring their first-hand knowledge to the service design process
- Provide more coaching and support services for new businesses, specifically for those using innovation to 'design-out' the Poverty Premium, using existing examples of accelerator hubs and business incubators as good practice.

Regulators should:

- The Financial Conduct Authority (FCA) should broaden its regulation of all forms of high cost credit including caps on those not currently covered: costly bank overdrafts, rent-to-own, home-collected credit, catalogue credit, and store cards.
- The Competition and Markets Authority (CMA), which has been a leader in looking at the Poverty Premium, should lead on a partnership between all relevant regulators to reduce and ultimately remove the Poverty Premium in all its forms. It could start with the higher prices low income consumers pay for essential services, including the extra cost of customer loyalty, learning from good practice in each of their respective sectors. Where they are unable to act they should publicly hand over these problem areas to the Government so it takes remedial action.

- All regulators should commit to hosting incubation hubs which help new businesses test their ideas, particularly for those ventures working specifically to eradicate Poverty Premiums in their sector.

Government should:

- Set up a wide-ranging inquiry, working with a variety of regulators and businesses, to tackle the scourge of the least well-off in society paying more for their everyday essentials. They should also work with regulators (including the Financial Conduct Authority and OFGEM) to make sure a company's duty of care includes ensuring that those customers who are on a low income are on the best deal available.
- Take a lead on creating a Vulnerable Citizens Strategy, which should include making sure people on low incomes don't end up paying more for their essential services and products.

To this consultation, we also add a piece of original related research we commissioned from WPI Economics on access to insurance which discusses in detail the particular issue of the poverty premium in contents and motor insurance, and people on low income's difficulty in accessing those financial products.