

Access to Financial Services in the UK

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Paper 17**

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Finally we thank contributors from consumer organisations, trade bodies and firms for their help and assistance too. A list of organisations consulted as a part of this work can be found in Appendix 1.

All errors are our own. We welcome feedback on this paper, via contact with the authors. Please contact Martin Coppack (martin.coppack@fca.org.uk 020 7066 6064).

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Foreword

It is very easy to take financial services for granted. For most people, they are readily available. Yet for a significant number of people they do not seem like an option. Without access to financial services, consumers can find themselves shut out of modern life. They are unable to communicate their needs and wants to firms to influence the design, delivery and price of vital products like mortgages, insurance or even bank accounts.

Being unable to access financial services seriously undermines people's ability to take responsibility for their own financial well-being and resilience.

Resolving this is complex. Ensuring that consumers who would be turned away in the normal course of business have access to services can create other challenges, such as requiring cross-subsidy from public funding or other customers. So interventions must be considered carefully.

Through our regulatory work we see how some people find it difficult to engage with financial services. Our work on the UK's ageing population, for example, has shown us that this is an increasing problem for the fastest growing part of our population. We have repeatedly heard from firms, consumer organisations and other regulators about the difficulties a wide range of consumers face when trying to access products and services which they can afford and which meet their needs.

We have already undertaken significant work in this area. This includes working with HM Treasury on the recent Financial Advice Markets Review (FAMR), our efforts to simplify consumer communications and our work on making shopping around easier and clearer in annuities and cash savings.

Financial inclusion is a vast topic and one where the actions of the regulator alone cannot possibly address all the potential issues.

That is why we commissioned this Occasional Paper. We want it to act as a means of bringing together a range of issues for debate, culminating in a series of questions for the regulator and other stakeholders to consider. In the spirit of our occasional paper series we have asked academic peers and our own expert staff to explore these themes and put forward items for discussion, rather than present an 'FCA view'.

As such, this paper does not seek to cover all of the work already done by the FCA or others.

Instead, it aims to stimulate ideas and solutions to foster a culture of access and inclusion throughout retail financial services.

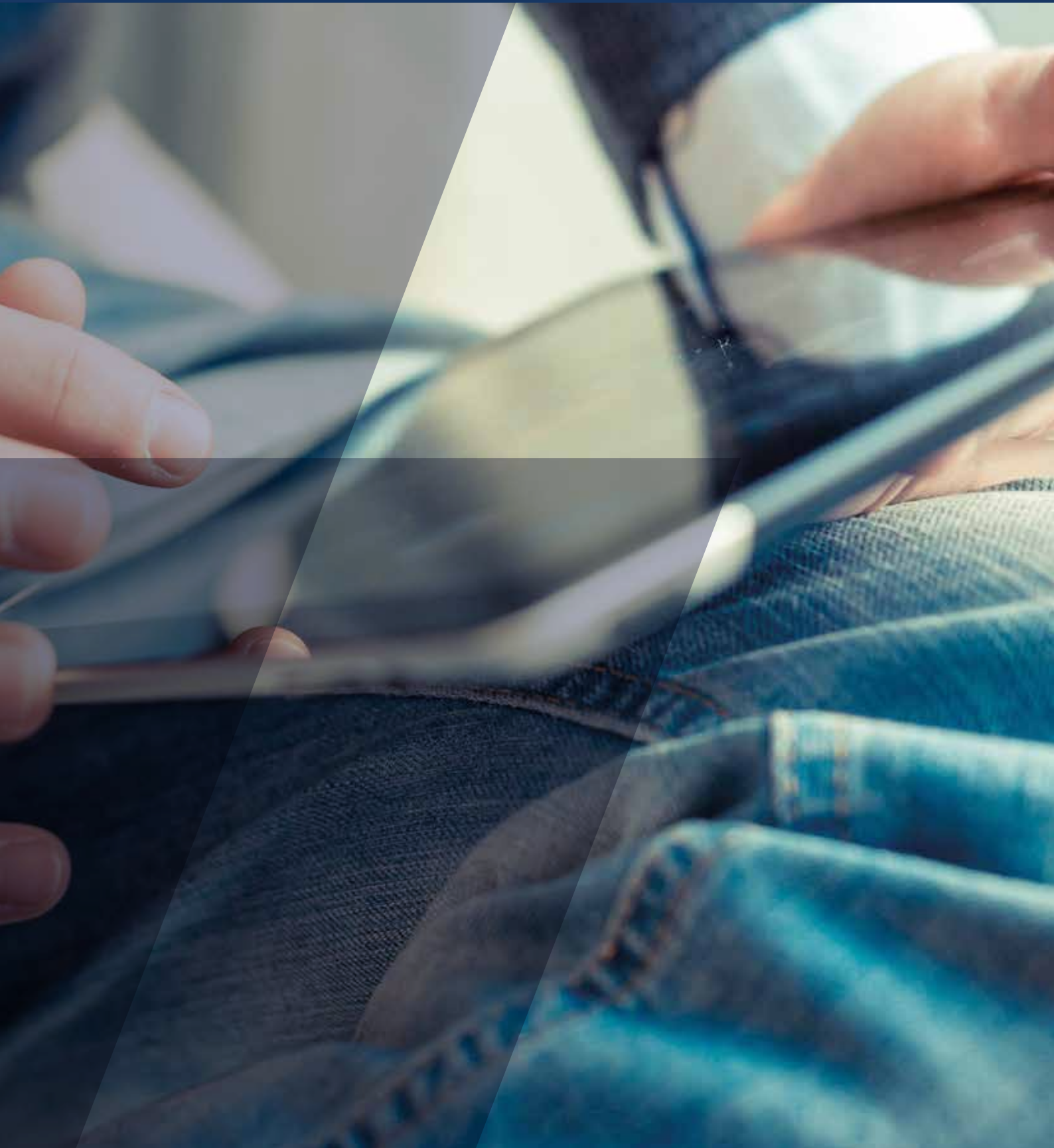
The depth of analysis contained within this Occasional Paper constitutes a meaningful step forward, but we acknowledge there are a multitude of questions to consider, which will require an ongoing commitment from firms, regulators, Government and consumer organisations to work together. We hope this paper provides a further stimulus to do so.

Christopher Woolard
Director, Strategy & Competition

Financial inclusion is a vast topic and one where the actions of the regulator alone cannot possibly address all the potential issues.

Christopher Woolard

Director, Strategy & Competition





Executive summary

Increasingly, UK individuals and households are expected to take responsibility for their own financial well-being. Yet they can only do this if they have access to financial services that meet their changing needs throughout their lifetime. There is also growing understanding that consumers' ability to access these services helps to improve market integrity, drive competition and promote financial stability and economic growth. However, potentially millions of UK consumers cannot use the services that would help them meet their needs and play their wider role in financial markets and the economy.

An earlier Occasional Paper commissioned by the FCA analysed the experience of vulnerable consumers in financial markets (Coppack et al, 2015). Access was one of the problems identified. But access does not just affect the vulnerable - it affects consumers across the spectrum. This situation is not static and new access issues emerge, often unexpectedly, because of social and technological change.

In a market-based system, consumers do not have an automatic right to receive products and services, nor firms an obligation to provide them unless specific universal obligations are legislated for (for example in telecoms). This means it is often not obvious who should take responsibility for access issues. One of this Occasional Paper's key purposes is to explore which stakeholders may be able to drive improvements and, in particular, how much access issues may come within the scope of the financial regulator. It aims to open up discussion about the nature, scale and impact of access issues, and how to resolve them. It also seeks to begin a new conversation, stimulate ideas and foster a culture of access and inclusion throughout retail financial services. To achieve this will require collaboration between firms, regulators, the government and consumer organisations.

Access is the ability of consumers to engage with and use the financial products and services they need over their lifetime.



Why access matters

It is easy to take financial services for granted. Yet without access to financial services, people and families can find themselves shut out of modern life. A bank account is the most fundamental of financial services. Not only does it make everyday transactions possible, but it acts as a gateway to other products and services, like insurance, credit and mortgages. How consumers organise their lives, where they go and what they do affect their ability to pass identity and creditworthiness checks or choose how they use services, such as in person rather than online. Issues outside consumers' control, such as age or disability, can put financial products and services out of reach and make it impossible for people to do ordinary things like move home or go on holiday. Anything that bars access to financial services undermines an individual's or household's ability to take responsibility for their own financial security, in turn potentially damaging their well-being.

Consumers' ability to engage in financial markets is fundamental to effective competition and economic growth. Consumers who are shut out cannot communicate their needs and wants to firms to influence the design, delivery and price of products. The consequences go beyond consumer detriment, and mean poorer use of resources across the economy and missed opportunities for firms. On the other hand, ensuring that consumers have access to services when firms choose not to supply them is likely to involve some cross-subsidy from other consumers or taxpayers. In this case, some overriding of competitive forces may be the price of increasing social justice.

Access to financial services is recognised globally as important to financial stability and the integrity of markets. Consumers shut out of mainstream financial services are more likely to use the cash economy and alternative providers. In the process, consumers are more vulnerable to being exploited or scammed by criminals.



Access to Financial Services in the UK



Figure 1: Examples of access issues

Inconsistent information and long delays in setting up a UK bank account

Josh

Guildford

Credit & Retail Banking | Usage

“It was a mess.

Different branches of the same bank were telling us different things. In the end, I had to ask to speak to a manager and demand they did something for us.”



Josh and his wife came to the UK at the start of 2015 when his wife’s employer transferred her to their London office. When they arrived, they brought around £4000 in cash with them to live on whilst they were setting up bank accounts and waiting for their first pay cheques. Josh and his wife hid their money in among their clothes to keep it safe. When Josh and his wife tried to open an account they were turned down due to lack of proof of address because they were staying in a temporary rental apartment. Different branches of the firm that they were dealing with gave them different information about how to obtain proof of address and what was acceptable. Several weeks later, the firm finally let Josh’s wife open an account using her employment contract as a form of ID; during this time they lived on the cash they had hidden. It took a further 6 months for the bank to open a joint account and for Josh to get a debit card of his own.

Alison: Unable to find any travel insurance



Facts about Alison

Age: 70s

Occupation: Retired

Living situation: Living alone

Product area: Insurance

Journey stage: Usage

Alison was diagnosed with terminal cancer in 2014 and had orthopaedic surgery to remove tumours including a hip replacement. She has been given 2-5 years to live but currently takes medication that means she is in good daily health. Alison tried to find travel insurance to enable her to go on holiday with friends and family, after her recovery, and her consultant was very happy to write her a letter to say she was fit for travel. She tried multiple insurers to get cover for a 10 day cruise which ended up costing as much as the cruise itself. On another trip, the problem seemed to extend to family members travelling in the same party, as Alison was down as the ‘organiser’ and this meant that they couldn’t secure their own insurance, independent of Alison’s.

Alison also sought help and advice from various sources, including the BIBA (British Insurance Brokers Association) helpline. At no point was Alison signposted to better deals which might have helped her.

“My day to day health is roughly the same as any other 70 year old with a hip replacement. I know people on dialysis who were offered cheaper insurance because their conditions were ‘life limiting’ rather than terminal. **I have looked and looked and nobody is willing to cover me**”

Turned down for a mortgage because of difficulty proving the source of inheritance

Kate

Bournemouth

Mortgages | Application

Last year, Kate (an occupational therapist) and her husband (a teacher) found the perfect home. They had been searching for months because Kate has a disability and they needed to find a bungalow close to their family. Kate had recently inherited twice and her husband also had an inheritance to use as a deposit on their new property. They had an Agreement in Principle for a 20% LTV mortgage when they placed their offer, however a few weeks later the mortgage was withdrawn due to money laundering regulations as the firm felt they could not prove where their inheritance money came from. Kate and her husband were at risk of losing their new home and the process of applying to a different firm would take too long. Eventually, Kate’s parents offered to lend her the money instead.



“We were in a panic, the seller wanted to move quickly and we were going to lose this place. We asked the bank to speak directly to our solicitor who could work out what documents were needed to prove where the money came from but they refused and withdrew the offer.”

Types of access issue

Access issues can affect any stage of the consumer journey. Problems can deter consumers engaging in the first place, making it difficult for them to research the market and choose products. Obstacles created at the application stage make it hard to use and switch products or to get help with any of these issues. An added problem is that access issues are often multi-dimensional so that consumers often have to deal with several barriers and at different stages of the journey.

The FCA commissioned qualitative research with consumers and experts on access problems (Rowe et al, 2016). This research highlighted the complex and multi-dimensional nature of access issues. Figure 2 shows how the independent researchers categorised the nature of access issues that consumers experienced.

Figure 2: Consumers' experience of access issues



The maze

Process, requirements and eligibility

Complex and bureaucratic processes lead to a lack of transparency. Certain consumer characteristics and circumstances can make obtaining a suitable product or service at an affordable price difficult or impossible.

Source: Rowe et al (2016: 18-19).

Summary of key problems experienced include:

- Customers who have slightly unusual needs can challenge systems that are seemingly designed for 'average customers'
- Poor and inconsistent communication can leave customers 'in the dark' about what they are expected to do in order to overcome an access challenge or problem
- Customers are unable to find tailored products for their needs at a price they can afford
- Measures put in place to protect consumers from fraud can make access more difficult or impossible



The fog

Market navigation and comprehension

Financial products are often communicated and marketed in a way which makes them more difficult for consumers to search for and to understand.

Source: Rowe et al (2016: 18-19).

Summary of key problems experienced:

- Jargon can be difficult to understand or can add further confusion
- Products are difficult to compare as they use different terminology and concepts to describe features
- Offers and introductory rates can mask the 'true' costs of products
- Not easy to have 'oversight' of the whole market, with products from different providers more or less easy to find



The void

Physical and digital barriers

Consumers can get 'stuck' or be 'blocked' from accessing financial products and services because of physical ability or capability issues.

Source: Rowe et al (2016: 18-19).

Summary of key problems experienced:

- Move to online can mean that consumers with poor digital literacy or limited internet access have increasingly limited choice
- Customers with disabilities can struggle to access banking services that increasingly rely on technology or automated systems
- Customers in rural areas may face long and/or costly journeys to visit branches

Scale of access issues

This Occasional Paper does not seek to identify and examine every type of access issue but it does attempt to portray access issues across a range of financial services. We researched and analysed access issues through the lens of five major social and technological trends: **digital transformation**, especially in banking; **compliance and crime prevention**, in the form of the anti-money laundering and know-your-customer regulations; **automated processes** in the credit market; increasingly **segmented markets** for insurance; and how policies to tackle problems associated with an **ageing population** impact on people's access to credit in later life. Some examples of the problems we found include:

- Living in those rural areas of the UK that still have poor internet access makes it difficult or impossible for people to manage their money online; and lack of even basic digital skills limits use of online financial services.
- Not having a passport or a driving licence causes consumers problems in getting a bank account, as these are the typical standard documents used by banks to verify identity.
- Consumers with no permanent address or who move often can have problems opening bank accounts and gaining access to credit, as this affects bank verification of their details. This particularly affects members of the Armed Forces and people renting privately.
- Poor access to insurance for those aged 65 and over and people who are disabled or who have experienced serious illness.

The number of individuals potentially affected by such major trends means access issues run to many millions (Figure 3).

Figure 3: Who is at risk of access problems?

The types of barriers that can exist for consumers trying to access financial services in the UK

The imperfect consumer

'Non standard' consumers can find it impossible to find tailored or appropriate products

3 million people with disabilities who have been turned down for insurance or charged extra

Extra Costs Commission, 2015



2.5 million living with and after cancer, forecast to rise to **4 million** by 2030, who would find themselves in the 'non-standard' category

Macmillan, 2015

750,000

ex-offenders and their families can struggle to find affordable insurance products

Financial Inclusion Commission, 2014



The push to online financial services

The shift to online delivery channels of financial services can leave individuals and households shut out from access to products and services



UK households are without the internet
ONS, 2015

1 in 5 consumers in the UK lack digital skills

House of Lords, 2015



Almost **1 in 4** of the UK's remaining bank branches are estimated to close by 2020



12 million people live in rural or remote areas of the UK where poor internet access can make it difficult for them to manage their money online

ONS/The Scottish Government, 2015

Identification barriers to opening bank accounts

Around **1.5 million UK adults** remain unbanked

Rowlingson and McKay, 2015



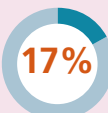
153,720

in the armed forces



Those who move home frequently or have a British Forces Post Office address rather than a standard postcode can find this counts against them when they apply for a bank account

ONS/Ministry of Defence, 2015



9.5 million consumers in England and Wales do not have a passport

ONS, 2012

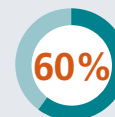


1 in 4 residents in England do not have a driving licence

Department for Transport, 2015

The ageing population

Consumers are more likely to be turned down for a mortgage in later life, without a clear reason as to why



of mortgage lenders set a blanket upper age limit

Compiled by the authors from data in Moneyfacts, 2016

1.1million

increase in over 65s by 2020

Parliament, 2015, Political challenges relating to an ageing population



85+

fastest growing age group in the UK

Parliament, 2015, Political challenges relating to an ageing population



The computer says no

Consumers caught in a maze of impersonal processes with decisions made by computers instead of people. Credit markets are a prime example, affecting:



Young people yet to build a credit file

Newly separated/divorced/widowed with no financial products in their name

Low income households that operate using cash



9.6 million

households in the UK who have low incomes

DWP/ONS, 2015



Meaningful access to financial services is essential for participation in society. Barriers to access affect many different types of consumers across the UK.

Access to Financial Services in the UK



Our research

This Occasional Paper is part of an ongoing programme of work on Access to Financial Services by the FCA's Consumer Insight department. Research carried out and commissioned by the Consumer Insight department since September 2014 forms the basis for this Occasional Paper, which has been synthesised and extended by the authors using additional sources of information.

The FCA's Consumer Insight department and the authors conducted a comprehensive in-house review of evidence and research on access and financial inclusion. This included research and evidence reports published by charities and non-profit organisations, social research organisations, consultants and academics. The department and the authors also used FCA intelligence, such as case studies from its Consumer Helpline, information from supervisory staff, letters from MP's representing their constituents and information gained from the Financial Ombudsman Service, FCA annual surveys and the FCA's Consumer Spotlight segmentation model.

From this, the Occasional Paper authors and the Consumer Insight department identified examples of access issues linked to social and technological trends – digital transformation, compliance and crime prevention, automated processes, segmented markets and an ageing population. These examples informed the design of the qualitative research (Rowe et al, 2016) which is outlined in Chapter 3 and described in more detail in Appendix 2. Research into the five areas was then extended and, through further analysis, the authors arrived at a series of questions to help explore how access issues might be addressed.

Who is this Occasional Paper relevant to?

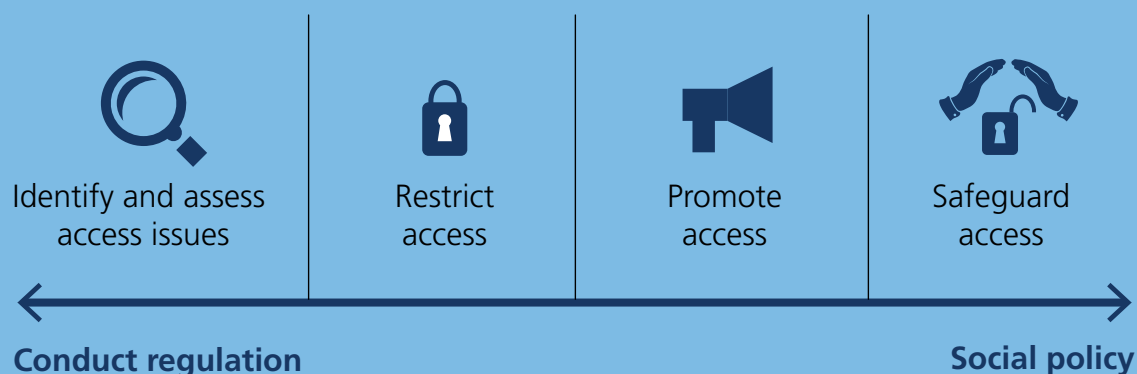
This Occasional Paper is relevant to anyone who is a stakeholder in access to financial services. This includes consumers, organisations that represent them, firms who provide financial services, regulators and the government.

What can stakeholders do?

We have already noted that consumers do not generally have an absolute right to access products and services, nor firms a duty to supply them. This means that some access issues cannot be solved by consumers or firms acting alone. This suggests a need for regulatory or government intervention. However, the actions of regulators are constrained by their remit. Additionally, increasing access is not always an unfettered 'good thing' – limiting access, for example to prevent crime or irresponsible lending and borrowing, is done in the best interests of the consumer, markets and the economy. Moreover, market interventions can have unintended consequences. Bearing this in mind, we have identified certain key functions that are potentially relevant to access issues: identifying and assessing the issues; restricting access; promoting access; and safeguarding access. These can be mapped to a continuum of interventions that range from conduct regulation at one end to social policy at the other (Figure 4).



Figure 4: Functions relevant to access issues



The first item in the continuum is to identify and assess access issues. Some commentators sometimes use thin data about the prevalence of an issue as a reason for rejecting or delaying action to resolve it. However, rather than being a reason for dismissal, the authors believe a lack of hard evidence can be seen as a part of the access issue that itself requires a solution. Consumer organisations often lack sufficient resources to capture, collate and utilise enough data to initiate regulatory action. As authors we believe that, in the absence of an adequately resourced centralised consumer body, or greater support for additional funding and expertise for individual organisations, official bodies, such as the FCA, need to step in and proactively research the scale of emerging and potential access issues. Commissioning this Occasional Paper represents one way in which the FCA has sought to do this.

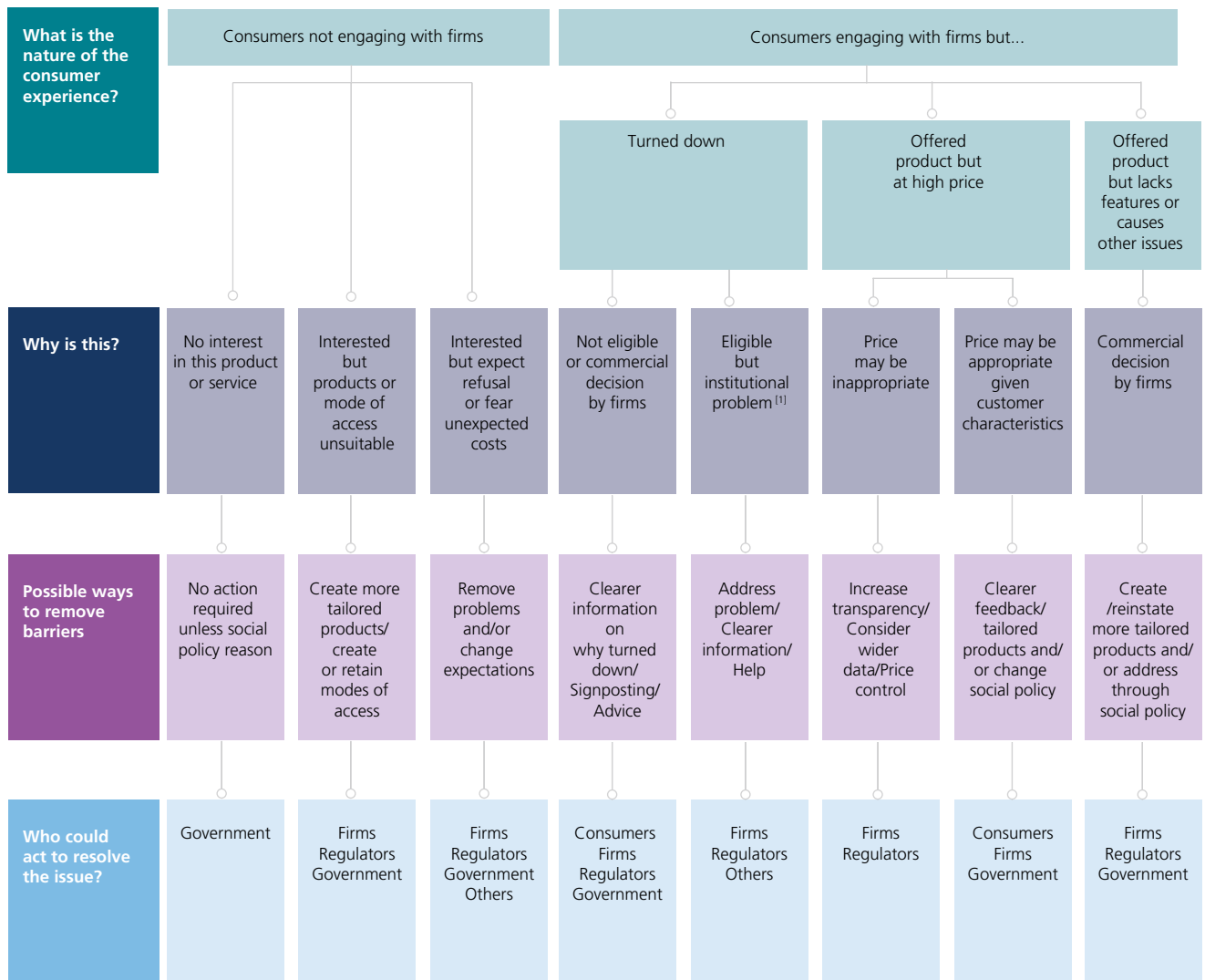
Building on the continuum and what we have learned from the qualitative research, Chapters 4 to 8 of this Occasional Paper analyse each of the five examples, probing the access issues that consumers face and the solutions that stakeholders are already exploring to address the barriers to access. We have categorised the results of this analysis into an evidence-based taxonomy shown in Figure 5.

The taxonomy starts at the extreme of consumers not engaging at all with firms because they have no interest in the products and services they offer; an example of this is in Chapter 4 which highlights that, in the context of digital innovation, some consumers prefer to deal in cash, while others have so far perceived no need for the internet in their own financial lives. In this case, there is no barrier from the consumer viewpoint, but there may be a role for social policy if engagement is perceived to be in the wider interests of the economy and society. Moving rightwards across the taxonomy, the level of consumer engagement increases, but with different access issues standing in the way. For example, some consumers engage with firms but find they are turned down for the product or service they want because they are ineligible or do not meet firms' commercial criteria. This type of issue is seen in Chapter 5 (compliance and crime prevention particularly in the context of opening bank accounts), Chapter 6 (automated processes in relation to credit) and Chapter 7 (segmented markets for insurance). In all these contexts common issues were lack of clear information on why consumers had been turned down, what they could do to improve their subsequent chances of success and where they could turn to for advice. In this way, weaving together the evidence from Chapters 4 to 8, each type of issue is mapped to possible ways to remove the barriers to access. The aim is to move beyond the particular examples discussed in Chapters 4 to 8 to create a generalised classification that could serve as a blueprint for tackling any access issue.

Access to Financial Services in the UK



Figure 5: A taxonomy of access issues



[1] 'Institutional problem' refers to a firm's internal communications, processes or other systems.

The taxonomy in Figure 5 shows how different stakeholders, including regulators, might be involved in removing the barriers that create access problems. To promote access and financial inclusion is not to argue that firms should provide every consumer with access to all financial services. Access issues can, however, arise as a result of competition not working effectively, which the regulator may be able to address using its competition powers. For example the qualitative research commissioned by the FCA provides examples of consumers who found themselves in a 'fog' where it was difficult to navigate the market to find products and services that suited them, because of trends like digital transformation of financial services (Chapter 4) or segmented markets (Chapter 7). Where appropriate the FCA can also use its regulatory toolkit such as rule-making, thematic reviews, market studies and discussion papers.

The taxonomy indicates that there is not necessarily a role for regulators in addressing every type of access issue, for example where access is a matter of social policy.

Questions to explore

Based on the taxonomy, we set out a series of questions for stakeholders to consider in order to address access issues. Most, though not all, of these questions flow from the taxonomy shown in Figure 5 above. The authors also propose greater strategic oversight for taking solutions forward, which requires closer joint working between government and regulators.

Driving change

-
- Q.** Because robust evidence is a prerequisite for regulatory action, but consumer organisations lack data gathering resources, could the FCA be more active in understanding the scale and detriment caused by access issues, for example, working in new ways with consumer organisations to gather more robust data, and/or commissioning new research?
-

Interested but unsuitable products or mode of access

-
- Q.** Could more firms develop new products that benefit consumers and promote competition, facilitated by initiatives such as the FCA's Project Innovate?
- Q.** Building on the example of the FCA's recent discussion paper (FCA, 2016h) on issues for older people, is there potential for the FCA, firms, other regulators (in consultation with organisations such as think tanks and consumer organisations) to address access issues for other population groups in a similar collaborative way?
- Q.** Ultimately, maintaining particular products or modes of access may be a matter for social policy and therefore government. In such cases should regulators and firms in consultation with consumer organisations, proactively alert government to these issues as they arise?
-

Interested but expect refusal or unexpected costs

-
- Q.** Should firms be encouraged, or required, to give consumers a better experience, even if they are legitimately turned down? For example, explaining clearly what the problem is, suggesting how it might be overcome and signposting to other firms or organisations that might help.
-



Access to Financial Services in the UK



Turned down because not eligible or commercial decision

- Q.** Should regulators and trade bodies, in consultation with others such as consumer bodies and information and guidance organisations, review the information available to consumers, to assess whether it is consistent, independent, reliable and easily accessible?
 - Q.** Would consumers benefit from firms either voluntarily providing, or being required to provide, relevant information about the main reasons they have been refused, so they can understand how they can improve their chances of applying successfully in the future?
 - Q.** Should more firms be encouraged to set up voluntary agreements to signpost consumers to other firms or advice organisations? Where voluntary agreements already exist (e.g. between the Association of British Insurers and British Insurance Brokers Association), can participating organisations be encouraged to monitor outcomes and share findings?
-

Eligible but turned down

- Q.** What are the benefits of the FCA re-emphasising to firms the expectation that consumers should not needlessly be denied access to products and services and promoting a more consistent approach within firms and across the industry. This is when consumers have appropriate identification documents (as laid out by the JMLSG and FCA guidance).
 - Q.** Should the British Bankers Association explore with its members the scope for improving bank account opening processes and encouraging consistency of approach to help close policy/practice gaps?
 - Q.** What are the benefits of the industry enhancing its monitoring of bank account and basic bank account opening? And should the FCA enhance its supervisory oversight of bank account and basic bank account opening (and the migration of consumers between different types of account) when it gains responsibility for monitoring basic bank account opening in September 2016?
 - Q.** Should the industry and FCA collaborating to ensure that consumers are offered quotation searches as standard, where consumers make clear they are shopping around and not quite ready to make an application for credit?
-

High price that may be inappropriate

- Q.** Could there be benefit (for example in terms of promoting competition) in firms voluntarily providing benchmarking data similar to the benchmark data already published by the ABI regarding age as a factor in motor and travel insurance?
-

High price that is correct

- Q.** Should industry and the ABI voluntarily make available information that demystifies risk pricing for consumers, the government and regulator? Benchmarking data as described above could help consumers understand the pricing.
 - Q.** Should firms voluntarily provide better, more tailored information to consumers about the main factors that have influenced the price they have been quoted?
-

Impact of commercial decisions

Q. Should the FCA expand its work to promote competition, to develop commercial solutions and meet differing consumer needs, for example through Project Innovate? If so how?

Indirect effects

Importantly, as discussed in Chapter 8, policies designed to address one issue (such as the ageing population) can have unanticipated consequences in other areas. To address this, we pose the following questions:

Q. Should government and the FCA consider indirect effects on access when carrying out impact assessments of new policies and initiatives? What might this look like?

Q. What are the benefits of the FCA routinely considering access as part of its market studies?

A way forward

Q. Should there be closer joint working between government and regulators to address the effects of access problems and financial exclusion in a more strategic and co-ordinated way? What might this look like?

What might good look like through a consumer's eyes?

The taxonomy starts with the consumer experience and, by highlighting the issues, suggests strongly what 'good' might look like in consumers' eyes:

- being confident that the products and services available are relevant to their needs
- being confident they will receive an interested, respectful and helpful response when they engage with firms
- being told why if they are turned down, and advised what to do to improve their chances of success next time and/or signposted to other providers or sources of help
- being confident that firms' decisions and pricing are fair
- not being placed in a 'Catch 22' where they are expected to take financial responsibility for themselves but are denied the means to do so.



In summary

Unless there is a strategic approach to addressing access problems, excluded consumers will remain unable to access the market and the benefits of financial services. Yet at the same time, the market can only go so far in addressing the varying financial needs of people in the UK today. As authors, we ask whether progress can be made without a more joined-up approach between all the stakeholders involved in financial services: the FCA, government, firms and consumer organisations. This reflects the fact that many different organisations have varying interests and responsibilities. While there are ad hoc examples of collaboration, there is no systematic attempt to work together. By continuing to act in isolation, we consider that progress will be severely hindered.

This Occasional Paper aims to begin a new conversation. Throughout this paper the authors have tried to present issues very much from the consumer perspective – what does detriment look like to consumers and what might good look like to them when it comes to issues of financial inclusion? We hope it becomes a catalyst for new ideas so we are able to develop a culture of access and inclusion throughout retail financial services in the UK; a culture that includes firms, regulators, the government and consumer organisations.

Sharon Collard

Martin Coppack

Jonquil Lowe

Simon Sarkar





1 Introduction: why is access an issue?

Access is the ability of consumers to engage with and use financial products and services that meet their needs over their lifetime. In the UK, the exclusion of significant numbers of people from everyday financial services, such as banking, credit, insurance and savings, first became a focus of concern in the 1990s. Since then, the challenge of promoting better access to retail financial services for the good of consumers and economies has been taken up globally.

“Today, there is widespread understanding that financial inclusion, stability and integrity and consumer protection are not just compatible, but mutually reinforcing. Moreover, the role of inclusive financial systems in fostering economic growth, job creation and resilience is far more widely recognized.”

Foreword, G20 2014 Financial Inclusion Action Plan by Her Majesty Queen Máxima of the Netherlands, UN Secretary-General's Special Advocate for Inclusive Finance for Development and Honorary Patron of the G20 Global Partnership for Financial Inclusion.

The major technological and social forces transforming financial markets mean that access problems do not only affect vulnerable consumers. As this Occasional Paper shows, it is a mainstream issue which cuts across a number of the FCA's business plan priorities for 2016/17, in particular Innovation and Technology; Financial Crime and Anti-Money Laundering (AML); and Treatment of existing customers¹. Consumers' ability to access products and services relevant to their needs is one of the consumer expectations that the FCA uses to frame good consumer experiences and outcomes in the financial services market². Financial regulators in other countries also want to ensure that consumers can access financial services in the face of technological and social change (FCA, 2016a).

This Occasional Paper aims to begin a new conversation, stimulate ideas and foster a culture of access and inclusion throughout retail financial services, which includes firms, regulators, the Government and consumer organisations. This Occasional Paper does not contain the FCA's legal interpretation of its powers in these matters or of other relevant legislation; nor should it be taken as representing the FCA's view on access. Any views expressed or recommendations made are those of the authors in their personal capacity.

¹ The FCA's seven Corporate Priorities are Pensions, Financial Crime and Anti-Money Laundering, Wholesale financial markets, Advice, Innovation and technology, Firms' culture and governance, Treatment of existing customers (<https://business-plan-2016-17.the-fca.org.uk/>).

² The other expectations are effective choice; clarity and transparency; security; value for money; redress; and support for vulnerable consumers. Support for vulnerable consumers has already been explored by the FCA (Coppack et al, 2015).

Case study: Fedyenka's story

Fedyenka is a 27 year old businessman, looking to relocate his technology start-up business to the UK from Paris. On arrival, he made it a priority to look up banks with the best business services, intending to open both a personal account and a business account. He made appointments at seven different banks to identify which offered the best customer service. Out of the two who managed to keep their scheduled appointments, neither were able to help or offer any guidance about how Fedyenka could open an account with the range of ID documents he currently had, despite the fact that he had assets in French accounts. The whole process wasted a lot of time and effort, leaving him feeling that the UK was not 'open for business'.

In the end Fedyenka went from branch to branch until he found a bank employee who had experienced a situation like his before and was a bit more solutions-focused. As he commented: *'I didn't need them to just tell me what was there, I need them to problem-solve, to help me work out what was possible'*. This sentiment was echoed by an Expert Interviewee: *"Almost every firm has an alternative list [of ID]. And so what we'd really like to see is people asked instead 'How can we help you get the right ID?'"*

Case study: Tim's story

Tim is in his 70s and lives in retirement accommodation. He uses a wheelchair and doesn't like to go out without his wife. He can use the local Post Office for small financial transactions, although it doesn't deal with everything he needs and is only open one morning a week. The nearest bank is about 20 miles away and Tim struggles to use the local bus, because it only has space for one wheelchair and there are currently only two buses a day. When Tim and his wife do go to town they need to get a taxi, which is costly.

"We can't drive to get to the nearest branch so we have to take the bus, for about an hour. But there's a lady in the village before ours who gets the bus too and she is in a wheelchair so she takes up the disabled space. Then we have to get a taxi which is £16 each way."

(Source: Rowe et al, 2016: 28, 46)

1.1 Access, financial exclusion and consumer vulnerability

Access issues are multi-dimensional and often inter-related. While they can be limited to a single product, they can equally cut right across the financial services industry. They can arise at any and all stages in the customer journey, from researching and buying through to switching or exiting financial services, as illustrated in Table 1.1 below. Access issues also evolve over time. Consumers who have previously had good access to services can find they become marginalised or excluded. This can be because their personal circumstances change, because of a change in the way firms operate or as a casualty of the wider social and technological trends we discuss in Chapters 4-8.

Table 1.1: Types of access problems

Across consumer journey	Consumers cannot communicate with firms using a channel that suits them, at a cost they can afford or that represents value-for-money										
Researching & choosing financial services	Consumers cannot easily find out about different products and services using a communication channel that suits them		Consumers cannot easily compare key features of different products and services, to help them choose the right one		Consumers cannot easily understand the terms and conditions of products and services, to help them choose the right one		Consumers cannot easily discuss what they're looking for or ask questions pre-purchase				
Buying financial services	There are no products or services on the market that meet consumers' needs		Consumers cannot find the product or service they want at a price they can afford or that represents value-for-money		Consumers are turned down for reasons that are not clear or are not properly explained		Consumers are turned down for reasons that are perceived to be unfair		Consumers are not signposted to other providers or sources of help when they are turned down or cannot find what they want		
Using and switching financial services	Consumers pay more to use non-standard products or services		Consumers pay more than they expected to use a product or service		Consumers cannot use the product or service in the way they want		Consumers cannot pay in the way that suits them without incurring extra costs		Consumers cannot easily talk to someone if they have a concern or a query	Consumers cannot easily switch or exit a product or service	It costs consumers more than expected to switch or exit
Getting help	Consumers cannot easily access regulated financial advice			Consumers cannot easily access money advice ^[1]			Consumers cannot easily make a complaint or seek redress				

^[1] The term 'money advice' includes both generic money guidance and debt advice.

In Box 1.1, we describe some of the access problems that consumers experience. At worst, access issues mean that consumers are excluded or marginalised because they are not able or do not want to engage with financial services.

Box 1.1: How consumers experience access issues

Consumers may choose not to use some types of financial services (e.g. bank accounts, home contents insurance) because they believe they have little use or value, think they are likely to be rejected for them or feel that firms 'aren't for people like them'.

"I didn't think of going to the bank when I was short... I don't think they'd be able to help me out. The bank has tried to humiliate me in the past." (Consumer interview, Glasgow; Rowe et al, 2016: 39)

At the same time, they may want to use other kinds of financial services but be unable to access them, for example because firms do not market to them, because they do not meet the criteria to buy existing products or services or because firms do not offer the products and services they want at a price they can afford.

"It's not simply the case that disabled people aren't searching hard enough to find products, it's often that products are simply too expensive for this group, or in many instances just not there." (Expert interview; Rowe et al, 2016: 33)

Access issues often cause frustration, extra costs in time and money and sometimes lost opportunities, for example, if a job offer depends on having a bank account that you can't get. Access issues can ultimately result in financial exclusion, where consumers either can't or don't want to engage with financial services and may end up using poor-value or unregulated alternatives.

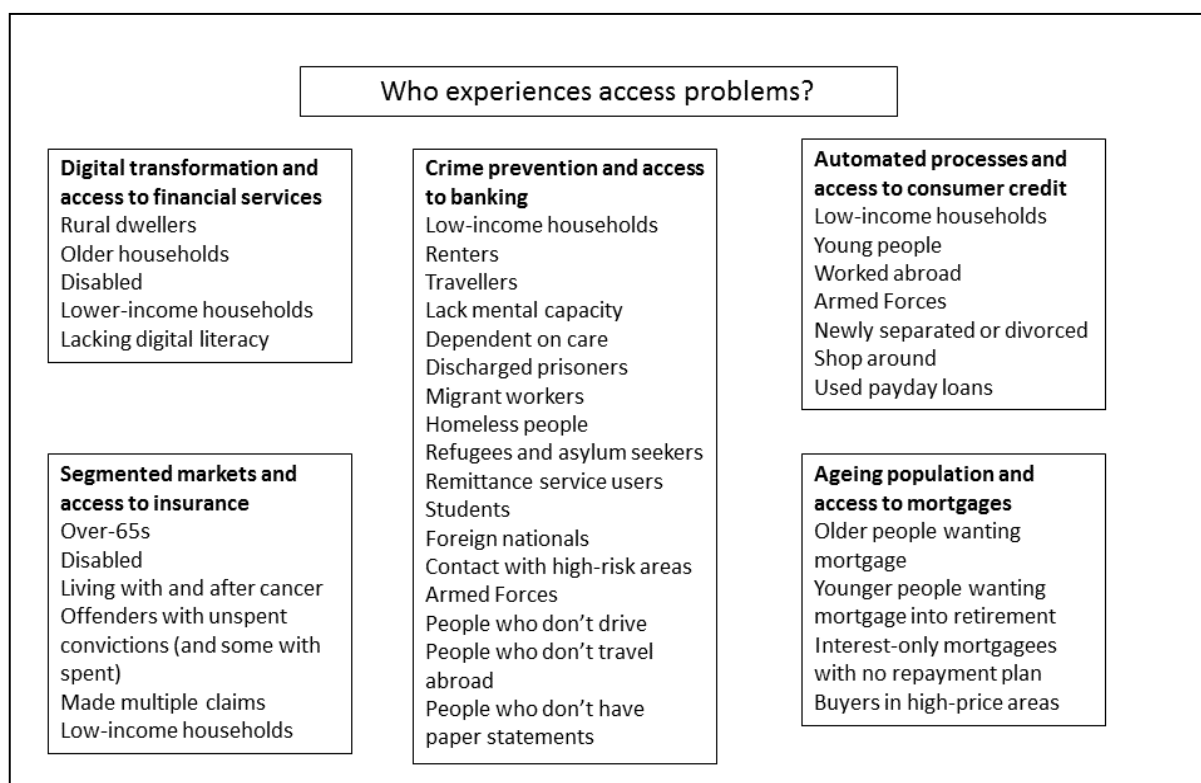
"We just can't get to the 'normal' bank. It's almost impossible without spending a lot of money on taxis. Doorstep lenders are the best option." (Consumer interview, Yeovil; Rowe et al, 2016: 46)

The nature of access problems means they can affect any consumer; and different consumers can be affected by different, and multiple, access issues. In this Occasional Paper, we focus on five example access issues created by major social and technological changes:

1. Digital transformation and access to financial services (Chapter 4).
2. Compliance, crime prevention and access to banking (Chapter 5).
3. Automated processes and access to consumer credit (Chapter 6).
4. Segmented markets and access to insurance (Chapter 7).
5. Ageing population and access to credit in later life (Chapter 8).

Figure 1.1 shows the different types of consumers who are potentially affected by these access issues. We explain the basis for selecting these particular examples in section 3.1.

Figure 1.1: Types of consumers potentially affected by example access issues



(Source: Authors' representation)

The size of some of these groups of consumers shows the potential scale of access problems. For example 12 million people live in rural or remote areas of the UK (ONS/The Scottish Government, 2015; ONS, 2013a; NISRA, no date) where poor internet access can make it difficult or impossible for them to manage their money online. For 9.5 million people (Ipsos MORI, 2014), a lack of even basic online skills is likely to limit their use of online financial services (Chapter 4).

Consumers who do not have a passport or a driving licence can face problems accessing a bank account, as these are the typical standard documents used by banks to verify identity. The 2011 Census showed that 9.5 million usual residents in England and Wales did not have a passport (ONS, 2012). In England in 2014, 27 per cent (or 12 million) of residents did not have a driving licence (Department for Transport, 2015) (Chapter 5). There are 153,720 people serving in the regular Armed Forces (ONS /Ministry of Defence, 2015). Those who move home frequently or have a British Forces Post Office address³ rather than a standard postcode can find this counts against them when they apply for a bank account (Chapter 5) or consumer credit (Chapter 6).

There are 14.9 million people in the UK aged 60 or over, including 12.4 million who have reached state pension age, and 1.5 million people are aged 85 or over (ONS, 2015a). As the age of first-time buyers rises, access to mortgage borrowing in later life and suitable products to release housing equity becomes a more pressing issue (Chapter 8), as does an ageing population's access to general insurance such as motor and travel cover (Chapter 7).

³ The British Forces Post Office (BFPO) provides a postal service to HM Forces, separate from that provided by Royal Mail in the United Kingdom. BFPO addresses are used for the delivery of mail in the UK and around the world.

These numbers apply only to known examples of access issues; they do not represent the totality of access issues. Other access issues may be under the radar. Consumers who do not engage with financial services at all, but may want to, are invisible to the FCA and to firms. Previous research shows that, particularly in lower-income households, personal preference, perceived irrelevance and affordability can prevent consumers from even considering insurance and savings products (Kempson et al, 2000). This leaves households exposed to the consequences of events like burglary or fire.

1.1.1 Access and consumer vulnerability

According to Coppack et al (2015), a vulnerable consumer is someone who, due to their personal circumstances, is especially susceptible to detriment, particularly when a firm is not acting with appropriate care. A consumer may be in a vulnerable situation for a range of reasons. They could be on a low income, have poor health or disability, have been in prison or be separated, divorced or widowed. These consumers will benefit from a different approach from firms, either temporarily or on a long term basis.

One way that firms can help is by making suitable products accessible to consumers in vulnerable circumstances, along with changes to their policies, better communication systems and processes and more consistently implementing good practice at all stages of the consumer journey (Coppack et al, 2015). Examples of access issues that can particularly affect vulnerable consumers included in this Occasional Paper are:

- The unaffordable cost of online financial services for people on low incomes (Chapter 4); and low-income consumers unable to access mainstream credit because they have little or no credit history (Chapter 6);
- The problems of proving their identity in order to open a bank account faced by ex-prisoners, refugees and asylum seekers (Chapter 5);
- Disabled people who are turned down or have to pay more for insurance (Chapter 7); and
- The challenges of financial management for older people with poor health or impaired mental capacity and their carers (Chapter 8).

1.2 Why is access to financial services important?

Access to financial services is important for consumers, for the financial services market and for the economy.

1.2.1 Consumers

It is easy to take financial services for granted. Yet without access to financial services, which increasingly means online access as discussed in Chapter 4, people and families can find themselves shut out of modern life. As we live longer, our lives as financial consumers can span seven or eight decades. Increased longevity also creates a need for new products and services (as we discuss in Chapter 8) if individuals are to exercise personal financial responsibility in the way that Governments want (Hacker, 2008) to relieve pressure on public finances.

Few of us can imagine living without a bank account in modern society, yet around 1.5 million adults in the UK do not have their own bank account (Rowlingson and McKay, 2015). With a bank account we can make and receive payments and store our money securely. Most employers require their staff to have a bank account in their own name for their wages, so a job offer can hinge on being able to open one quickly and easily (Financial Inclusion Commission, 2015). People wanting to move home would find it difficult, if not impossible, to rent private accommodation without first having a bank account. Whether it is rent or mortgage, water, energy, telephone, broadband or insurance - most of the payments made by householders are now electronic, made by direct debit, standing order or telephone or internet banking. In 2015, for the first time, there were more electronic transactions than cash payments (Peachey, 2015). Even if people use cash, they invariably draw it from a bank account.

A bank account also has an important symbolic function: it shows that we have had our identity checked and verified by a regulated financial institution. This opens the door to other financial services, such as consumer credit. As we go on to discuss in Chapter 5, for some people – such as low-income families in rented homes, students and workers from overseas, people who depend on care from others – access to banking is barred because of difficulties proving their identity.

“Something our advisors often comment on is how it feels for people when they are turned down by their bank or asked questions they can’t answer, or they’re made to feel that it’s their fault that the service isn’t right for them. And we get many reports of people who are unwilling or reluctant to use financial services again because of a bad experience or because they feel that those services aren’t for the likes of them.” (Expert interview; Rowe et al, 2016: 34)

In turn, building up a good consumer credit record should offer access to lower cost, mainstream borrowing. As Chapter 6 explores, consumers with a ‘thin’ or poor credit history not only pay extra to borrow, but pay more for energy, phones, household goods and anything else that involves an element of credit in the contract. It is estimated that low-income households pay around £500 a year extra for loans and energy (Save the Children, 2011). And trouble accessing credit affects more than just those on low incomes: young people, people who have worked abroad, the newly separated, divorced or widowed with no financial products or household bills in their name because their partner handled the finances; in fact anyone whose credit history is ‘thin’.

Another aspect of modern life where borrowing is important is taking out a mortgage. Cutbacks in social housing, increasing house prices and rising private rents make it harder for young people to buy their first home. As a result, home buyers are waiting until later in life to step onto and step up the housing ladder, and seek longer mortgage terms to make their repayments affordable. Chapter 8 examines how this may not align with Government policies to cope with an ageing population, making it harder for people from their 40s onwards and those who are already retired to access the mortgages they need.

Personal responsibility also requires access to insurance, savings accounts, investments and pensions if consumers are to protect against adverse events and support themselves financially in later life. Like consumer credit, access to insurance relies heavily on automated processes and data-driven decisions using data from traditional sources (such as application forms, credit files) and new sources (health and lifestyle data, social media). Consumers considered by insurers to be high-risk or non-standard – perhaps because of their age, their health or previous convictions – may find few options available to protect themselves or their family and an unaffordable price tag for those that are, as Chapter 7 outlines.

1.2.2 The financial services market

Qualitative research on Access commissioned by the FCA (Rowe et al, 2016), and described in detail in later chapters, illustrates the experience of consumers who face difficulties accessing financial services (Box 1.2).

Box 1.2: Consumers' experience of access problems**The void****Physical and digital barriers**

Consumers can get 'stuck' or be 'blocked' from accessing financial products and services because of physical ability or capability issues.

Source: Rowe et al (2016: 18-19).

Summary of key problems experienced:

- Move to online can mean that consumers with poor digital literacy or limited internet access have increasingly limited choice
- Customers with disabilities can struggle to access banking services that increasingly rely on technology or automated systems
- Customers in rural areas may face long and/or costly journeys to visit branches

**The fog****Market navigation and comprehension**

Financial products are often communicated and marketed in a way which makes them more difficult for consumers to search for and to understand.

Summary of key problems experienced:

- Jargon can be difficult to understand or can add further confusion
- Products are difficult to compare as they use different terminology and concepts to describe features
- Offers and introductory rates can mask the 'true' costs of products
- Not easy to have 'oversight' of the whole market, with products from different providers more or less easy to find

**The maze****Process, requirements and eligibility**

Complex and bureaucratic processes lead to a lack of transparency. Certain consumer characteristics and circumstances can make obtaining a suitable product or service at an affordable price difficult or impossible.

Source: Rowe et al (2016: 18-19).

Summary of key problems experienced include:

- Customers who have slightly unusual needs can challenge systems that are seemingly designed for 'average customers'
- Poor and inconsistent communication can leave customers 'in the dark' about what they are expected to do in order to overcome an access challenge or problem
- Customers are unable to find tailored products for their needs at a price they can afford
- Measures put in place to protect consumers from fraud can make access more difficult or impossible

Void – physical and digital barriers: Consumers can get ‘stuck’ or be ‘blocked’ from accessing financial products and services because of physical ability or capability issues (Rowe et al: 18). *“I want to try and do my banking on my own... but the bank isn’t making it that easy for me.”* (Consumer interview, Taunton; Rowe et al, 2016: 47)

Fog – market navigation and comprehension: Firms often communicate and market financial products in ways that make them more difficult for consumers to search for and understand (Rowe et al: 18). *“You try and read them [terms and conditions] and it’s all legalese. Jargon this and jargon that, and all those vague sentences where you end up thinking: wait, so could I claim or not?”* (Consumer interview, Leeds; Rowe et al, 2016: 32)

Maze – process, requirements and eligibility: Complex and bureaucratic processes lead to a lack of transparency, or make it difficult for both staff and consumers to be clear what needs to happen in order to solve a problem. Certain consumer characteristics and circumstances can make obtaining a suitable product or service at an affordable price difficult or impossible (Rowe et al: 18). *“It was a mess. Different branches of the same bank were telling us different things. In the end, I had to ask to speak to a manager and demand they did something for us.”* (Consumer interview, Surrey; Rowe et al, 2016: 29)

The fact that consumers experience such difficulties accessing, assessing and buying financial services indicates that the market is not working as well as it should, resulting in the risk of adverse effects on competition and a poor deal for consumers.

1.2.3 The economy

Access to financial services is recognised globally as important to the financial stability of economies and the efficient use of resources. This is for two main reasons. Firstly, a large part of combating financial crime (and by extension terrorism) is focused on minimising the flow of cash and preventing money laundering that may finance terrorism (Caruana, 2012). Promoting access to banking and electronic payment services helps reduce the use of cash, bringing more people into the regulated financial system where greater scrutiny and monitoring of consumers and their transactions is possible. This in turn reduces the likelihood that fraud, money laundering and financing terrorism goes undetected.

Secondly, financial inclusion is seen as closely linked to financial stability. If financial inclusion brings more consumers into saving, for example, it creates a broader base of depositors, which can support financial stability. Conversely, if greater financial inclusion creates opportunities for consumers to borrow, this could increase the risk of financial instability if it results in a rapid growth in consumer credit (Mehrotra and Yetman, 2015).

1.3 Getting access right: whose role is it?

As this Occasional Paper goes on to explore, access issues do not happen in silos and are often inter-related. The UK’s ageing population, for example, currently creates access problems for mortgage borrowing (Chapter 8). Older people are among the consumers adversely affected by insurers’ automated risk assessment and underwriting processes (Chapter 7). They are also more likely to be offline than younger consumers, which can affect their access as financial services continue to move online (Chapter 4). Access to financial services is also crucial to successfully implementing public policy in matters such as pensions, care in later life and welfare reform.

For these reasons, it is not always straightforward to work out whose role it is to address access issues. Some access issues are global and inter-governmental, such as those arising from Anti-Money Laundering regulations, as we see in Chapter 5. Others may be a matter for the UK Government or firms, while some may fall within a regulatory remit. For others, it is not obvious where responsibility lies and there may also be areas of shared responsibility. Important access issues risk falling into this gap and remaining unresolved, to the detriment of consumers and potentially that of industry and the wider economy too.

One purpose of this Occasional Paper is to explore what lies within the potential scope of the regulator and suggest ways in which regulatory activity could address access problems. It also looks at the role of Government, industry, other regulators and public bodies (such as the Information Commissioner's Office and the Equality and Human Rights Commission), civil society and consumers in promoting better access to financial services. In Chapters 4-8, we give examples of activities that directly or indirectly address access issues. In Chapter 9 we suggest a taxonomy that can be used to identify and understand access problems, possible solutions and the likely solution-makers.

1.4 Why should firms be interested in access?

Bringing consumers into financial services can offer firms new opportunities to increase market share and build profits. Making sure that consumers can benefit from good quality financial services demonstrates to the regulator and Government that markets are working well and may also help build consumer trust. At a macro-economic level, access may support financial stability by reducing financial crime (Financial Action Task Force, 2015) and by helping to promote economic growth (Mehrotra and Yetman, 2015).

Firms have played an important role in addressing access issues in the UK, both directly and indirectly. At a strategic level, industry was represented on the HM Treasury-led Financial Inclusion Taskforce which operated from 2005 to 2011. Industry also supports the Financial Inclusion Commission which was set up in 2014 (Financial Inclusion Commission, 2015). At an operational level, the major banks worked with HM Treasury to improve access to banking through the provision of basic bank accounts (Kempson and Collard, 2012); and more recently to provide fee-free basic bank accounts for people without an account or who cannot use their account due to financial difficulty (HM Treasury/Leadsom, 2014a; 2014b). The Association of British Insurers has worked to improve the uptake of home contents insurance, as have individual insurers such as Aviva (Chartered Institute of Housing, 2011; Financial Inclusion Commission, 2015). There has also been industry support for non-profit lenders. For example, Lloyds Banking Group has committed £4 million and Barclays £1 million, to support the development of the credit union sector (Archbishop's Task Group on Responsible Credit and Savings, 2016).

However, achieving a reasonable balance between access, business objectives and regulatory requirements is not always straightforward. Without regulatory or Government involvement, firms may be reluctant to promote inclusion if they consider the costs to business to be too high. Those that take proactive steps to widen access, while their competitors do not, may find it difficult to justify over the longer term if it potentially puts them at a competitive disadvantage or if the business is not viable.

Providing or maintaining access for customers who would be turned away in the normal course of business often implies a degree of cross-subsidy from other customers. Cross-subsidy refers to '*funding the loss or low return from one line of goods or services from another more profitable activity*' (Ussher et al, 2014). Cross-subsidy can create tensions between access and competition. On the one hand, cross-subsidies have drawn the attention of competition authorities because they can reduce transparency and can lead to firms using predatory pricing to deter competitors entering the market. On the other hand, cross-subsidy can allow firms to provide services that may not be available otherwise (Financial Services Consumer Panel, no date).

To promote access and financial inclusion is not to argue that firms should provide every consumer with access to all financial services. Firms are not obliged to serve every customer. They decide who to serve based on factors such as legislation and regulation, their business model and strategy and their competitors' activities. If a product or service is deemed to be essential, then it may be for social policy to determine universal supply or to protect particular groups.

2 Access: what role could regulators play?

In explaining its vision, the FCA sets out three broad outcomes it wants to achieve through its regulation of financial services firms. The very first of these is 'Consumers get financial services and products that *meet their needs* from firms they can trust' (FCA, 2012: page 7; emphasis added)⁴. The outcome the FCA wants to achieve is not just about physical access to products and services, then, but also how consumers engage with firms and products and use financial services over their lifetime.

The FCA has a statutory strategic objective of ensuring that the relevant markets work well. This is supported by three operational objectives, broadly: securing an appropriate degree of protection for consumers; protecting and enhancing market integrity; and promoting effective competition in the interests of consumers (FCA, 2015a). The FCA does not have a specific objective or duty relating to consumers' access to financial services or financial inclusion, although there have been calls for it to be given an additional statutory objective around financial inclusion (Financial Inclusion Commission, 2015). However, changing or adding to the FCA's statutory duties and objectives is not a focus of this Occasional Paper.

When considering the FCA's potential scope and powers for access and financial inclusion, external stakeholders have understandably tended to focus on the fact that, under its competition objective, the regulator '*may have regard to*' the ease with which consumers who may wish to use financial services can access them (Financial Services and Markets Act 2000, s1E(2)). This Occasional Paper illustrates that competition may not always be an effective way to overcome access problems that result from interactions between major social and technological trends, and between these trends and public policy.

Beyond this, the FCA has a remit to consider access and financial inclusion through its consumer protection objective and its public sector equality objectives (though these latter objectives have broader application, as discussed below). Sections of the FCA Handbook of rules and guidance (FCA, 2014a) are also particularly relevant to access, such as Principle 6, which states that '*A firm must pay due regard to the interests of its customers and treat them fairly*' (PRIN 2.1.1); and MCOB 11 which covers responsible mortgage lending.

⁴ The other two outcomes are: markets and financial systems are sound, stable and resilient, with transparent pricing information; and firms compete effectively, with the interests of their customers and the integrity of the market at the heart of how they run their business (FCA, 2012).

2.1 The FCA's Competition Objective

As part of its statutory competition objective, the FCA *may* in considering the effectiveness of competition have regard to five matters (Box 2.1). Matter (b) is about how easy it is for consumers who may wish to use those services to access them, including consumers in areas affected by social or economic deprivation. Understandably, matter (b) has been the focus of discussion because it specifically mentions the ease with which consumers who may wish to use those services, including (but not limited to) consumers in areas affected by social or economic deprivation, can access them. In general, people on low incomes, including unemployed people, those unable to work through ill-health or disability, carers, single pensioners, single parents and some black and minority ethnic groups are more likely to experience significant access problems (Kempson and Whyley, 1999; Kempson et al, 2000; Blake and de Jong, 2008; Mitton, 2008; Khan, 2008; Consumer Focus Wales, 2011). As we saw in section 1.1, there are other sizeable consumer segments who are not on a low income or vulnerable who also have significant access issues, such as rural dwellers, people new to the UK and people who frequently move job or home.

Box 2.1: The FCA's Competition Objective

In considering the effectiveness of competition, the FCA may have regard to:

- (a) the needs of different consumers who use or may use those services, including their need for information that enables them to make informed choices;
- (b) the ease with which consumers who may wish to use those services, including consumers in areas affected by social or economic deprivation, can access them;
- (c) the ease with which consumers who obtain those services can change the person from whom they obtain them;
- (d) the ease with which new entrants can enter the market; and
- (e) how far competition is encouraging innovation.

(Source: Financial Services and Markets Act 2000, s1E(2))

Other matters in the FCA's competition objective are also relevant to the wider issues of consumer access and inclusion. The qualitative research on Access commissioned by the FCA (Rowe et al, 2016) gives examples of consumers who found themselves in a 'fog' where it was difficult to navigate the market to find products and services that suited them because of trends like the digital transformation of financial services (Chapter 4) or segmented markets (Chapter 7). This indicates that the market may not be working well in meeting the needs of different consumers, including their need for information (matter a). There were also cases of consumers unable to switch products or suppliers (matter c), for example because they did not have the standard documents required to prove their identity, something we discuss in Chapter 5. If new entrants face barriers to entering a market (matter d) or there are barriers to innovation (matter e), opportunities to address the 'void', where consumers cannot find products that suit them or are easily accessed, may be lost.

2.2 The FCA's Consumer Protection Objective

The FCA has a statutory consumer protection objective (securing an appropriate degree of protection for consumers of financial services). In considering what degree of protection for consumers may be appropriate, the FCA **must** have regard to eight matters (i.e. it has no choice in the matter, unlike the 'may have regard' matters). It can be argued that most of these matters (Box 2.2) are either directly or indirectly relevant to access and inclusion.

Box 2.2: The FCA's Consumer Protection Objective

In considering what degree of protection for consumers may be appropriate, the FCA **must** have regard to:

- (a) The differing degrees of risk involved in different kinds of investment or other transaction.
- (b) The differing degrees of experience and expertise that different consumers may have.
- (c) The needs that consumers may have for the timely provision of information and advice that is accurate and fit for purpose.
- (d) The general principle that consumers should take responsibility for their decisions.
- (e) The general principle that those providing regulated financial services should be expected to provide consumers with a level of care that is appropriate having regard to the degree of risk involved in relation to the investment or other transaction and the capabilities of the consumers in question.
- (f) The differing expectations that consumers may have in relation to different kinds of investment or other transaction.
- (g) Any information which the consumer financial education body has provided to the FCA in the exercise of the consumer financial education function.
- (h) Any information which the scheme operator of the ombudsman scheme has provided to the FCA pursuant to section 232A.

(Source: Financial Services and Markets Act 2000, Section 1C(2); emphasis added)

Matter (a), for example, could relate to the differing degrees of risk in accessing and using high-cost short-term credit compared to other kinds of transaction, or the risk of accessing and using equity release products compared to other kinds of transaction, a topic we explore in Chapter 8.

For matter (b), there are some consumers who have little or no experience of financial services, or only parts of the market such as the sub-prime market. Other relevant factors here include low literacy and numeracy, which help shape people's ability and willingness to interact (and therefore their 'expertise') with financial services.

For matter (c), as we see in later chapters, there are significant access issues involving information provision that exist across the financial services industry and are by no means limited to marginalised or excluded consumers. Access to fit-for-purpose information and help was also highlighted by Coppack et al (2015), in their Occasional Paper on consumer vulnerability.

For example, as we discuss in Chapter 6, if 'the computer says no' to a consumer who applies for consumer credit, but the consumer is not given a clear reason for the rejection, it is very difficult for them to take steps to ensure they can apply successfully in the future, or try another option. As well as its relevance to matter (c), this also raises the question of whether firms have treated customers with an appropriate level of care in these instances (matter e) – certainly consumers in the qualitative research on Access commissioned by the FCA did not always think so (Rowe et al, 2016). Providing consumers with better feedback on failed applications, or signposting them to other services, may be ways in which firms can help promote access.

Arguably, these types of access problems also undermine the general principle that consumers should take responsibility for their own decisions (matter d). Consumers cannot reasonably be expected to exercise that responsibility if, for example, they struggle to understand the terms and conditions of products and services – not because they have poor literacy or low financial capability, but because of the way the terms and conditions are written.

Within the FCA's consumer protection objective is the Treating Customers Fairly (TCF) initiative (FCA, 2013a). The FCA set out six consumer outcomes that firms should strive to achieve to ensure fair treatment of customers (Box 2.3). At least four of these outcomes are directly relevant to access and financial inclusion (outcomes 2, 3, 4 and 6). They also reflect other important consumer expectations aside from access, such as clarity, transparency and redress.

Box 2.3: The six retail outcomes of Treating Customers Fairly (TCF)

Outcome 1: Consumers can be confident they are dealing with firms where the fair treatment of customers is central to the corporate culture.

Outcome 2: Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly.

Outcome 3: Consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale.

Outcome 4: Where consumers receive advice, the advice is suitable and takes account of their circumstances.

Outcome 5: Consumers are provided with products that perform as firms have led them to expect, and the associated service is of an acceptable standard and as they have been led to expect.

Outcome 6: Consumers do not face unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint.

(Source: FCA, 2015a)

2.3 The FCA's public sector equality duty

As well as its statutory objectives for regulating financial services, the FCA has a public sector equality duty derived from the Equality Act 2010. This is a duty to have '*due regard*' to the need to promote equality of opportunity, eliminate discrimination and foster good relations between people with protected characteristics (as defined in the Equality Act 2010)⁵ and others. While this duty does not create a distinct objective, it means that whenever the FCA 'acts' (makes a policy, issues guidance, takes a decision relating to supervision etc.) it takes into account whether the equality duty is relevant in relation to that 'act'. There is an additional requirement in the Equality Act 2010 (Specific Duties) Regulation 2011, to publish 'equality objectives' and data relating to the FCA's performance in the area of equality. Consumer access and insight is one of these objectives and the FCA states that it will consider the accessibility of its systems and services and the impact of its policies and processes on different groups of the UK population, keeping consumer issues at the heart of what it does.⁶

As part of its public sector equality duty, the FCA is committed to using Equality Impact Assessments to assess the impact of proposed policies or other initiatives on consumers with protected characteristics (see footnote 6). Where firms' behaviour to consumers with protected characteristics may contribute to those people experiencing difficulty accessing financial services, the FCA may act to seek to address firms' behaviour, for example through adjusting relevant policies to more explicitly promote equality.⁷

⁵ The Equality Act 2010 defines protected characteristics as age, disability, gender assignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex, sexual orientation.

⁶ In June 2016, the Financial Conduct Authority will publish "*About us: Corporate Responsibility Agenda*" online which gives details of its organisational objectives addressing its Public Sector Equality Duties in the Corporate Responsibility Agenda.

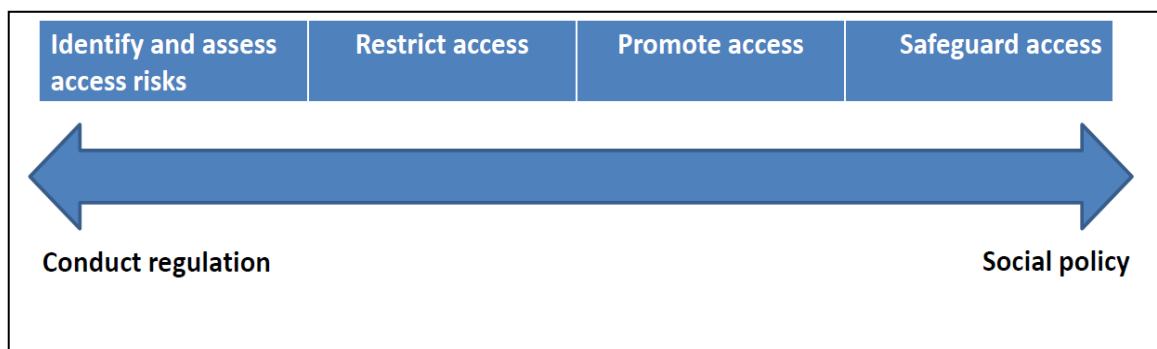
⁷ <https://www.equalityhumanrights.com/en/advice-and-guidance/public-sector-equality-duty> which states: 'Prior to the introduction of the race equality duty, the emphasis of equality legislation was on rectifying cases of discrimination and harassment after they occurred, not preventing them happening in the first place. The race equality duty was designed to shift the onus from individuals to organisations, placing for the first time an obligation on public authorities to positively promote equality, not merely to avoid discrimination'.

2.4 Access: what is the FCA's function?

The previous section shows the FCA has an active role in access and inclusion, in keeping with its statutory objectives. The question is: what activities can or should the regulator undertake?

In considering the spectrum of activities available to resolve access issues, we suggest a framework that spans from conduct regulation to social policy. There seem to be at least four functions that are potentially relevant in this framework: (1) identifying and assessing access issues; (2) restricting access; (3) promoting access; and (4) safeguarding access. Figure 2.1 suggests where these four functions fit on such a continuum. The sections below explore these functions.

Figure 2.1: Functions relevant to access and inclusion



2.4.1 Identifying and assessing access issues

Identifying and assessing access issues is a function the FCA already performs. The ability of consumers to be able to access and assess products is a key ingredient of effective competition, a core FCA objective. Through its supervision of firms, the FCA can identify and assess risks in firms' conduct that may affect consumers' access to financial services. When access problems occur because of firms' misconduct, the FCA can use its regulatory toolkit to address the misconduct and, by extension, the access issue. The FCA's toolkit includes rule-making, thematic reviews, market studies and discussion papers which look at issues in more detail, as well as data from the Financial Ombudsman Service and the Money Advice Service. The tools the FCA uses may also capture information about access issues. A market study often considers access when assessing the effectiveness of competition in a market, even if there are no conduct issues. For instance, they may arise as a consequence of the market structure.

The FCA's supervision work and the Consumer Insight Department's regular engagement with external stakeholders also enables it to carry out horizon scanning to identify emerging or potential access issues. More often than not, however, regulators and other authorities require 'hard' quantitative evidence of significant consumer detriment in order to consider taking action. This evidence can be difficult for consumer organisations to provide, even if they deal with access issues on a day-to-day basis, not least because of the costs of collecting the data (Dayagi-Epstein, 2007).

Finally, the FCA may identify access issues when implementing regulation and legislation that originates in the UK or, increasingly, in the European Union or from global standards. Stricter controls to prevent money laundering are an example, described in Chapter 5, which can make it harder for consumers to open a bank account, even if they represent a low risk.

2.4.2 Restricting access

Restricting access to financial products and services to prevent or alleviate consumer harm is another function that the FCA already performs, for example through implementing its own conduct rules, implementing measures to transpose European Directives which align different national laws (European Commission, 2015a) and through global directives. An important role for the regulator here is to make sure that firms comply proportionately with regulation so that consumers are not needlessly denied access.

Consumer lending is a major sector where FCA actions have had a direct impact on restricting access, because of concerns about consumer harm as a result of poor conduct. Affordability criteria for consumer credit have been tightened and a total cap on the cost of high-cost short-term loans introduced. Credit broker rules are intended to stop consumers mistakenly thinking they are going to access credit. The authorisations process for credit principals and agents may reduce the number of agents that offer credit.

The FCA has also taken action to restrict access to complex, risky investment products like contingent convertible securities, on the basis that they are only suitable for certain private investors (FCA, 2015b). Their work has also limited access to other products, such as equity release, to consumers who get advice before buying them (MCOB 8; FCA, 2014a) in order to minimise the risk for consumer detriment.

2.4.3 Promoting access

The FCA considers there cannot be effective competition in financial services unless consumers can access, assess and act on information about the financial services they want (FCA, 2015a). Weak competition can also create poor outcomes for consumers, such as higher prices and less innovation in products and services.

"We help to develop markets that will benefit consumers through effective competition. When competition is effective, engaged and active consumers are able to choose between suppliers, which stimulates rivalry to offer better value, better quality, new products and innovative methods of delivery." (FCA, 2015a: 43)

As we discuss in Chapters 4-8, communication between the financial services industry and consumers can be a significant source of access problems. The qualitative research on Access commissioned by the FCA, for example, shows that consumers struggle to fully grasp the details of products and services because of the 'fog' of industry language and jargon.

"I mean, I think I'm ok but I wouldn't say I'm particularly good at financial stuff or understand everything. Definitely not. There's so much out there I don't think anyone really gets all of it." (Consumer interview, Birmingham; Rowe et al, 2016: 31)

"There isn't clear information about how much products are going to cost or how they're going to work. When you're taking out the account, anticipating problems isn't built in to [the process] so something that's supposed to help you manage your money undermines your ability to do that." (Expert interview; Rowe et al, 2016: 32)

The FCA's work around Smarter Consumer Communications aims to adopt a more collaborative approach with industry to improve how firms, and indeed the FCA, communicate with consumers (FCA, 2015c). Among other things, the FCA has consulted on removing ineffective disclosure requirements from the FCA Handbook (FCA, 2015d), so that consumers only receive product information that they really need.

In the UK and globally, technology offers great potential to promote access to financial services. Through the FCA's Innovation Hub and Project Innovate (FCA, 2015e) which helps firms to navigate regulatory barriers, the FCA is encouraging regulated firms and non-regulated businesses to introduce innovative financial services to the market. However, new products and services coming into the market are not necessarily aimed at reducing financial exclusion and technology and innovation can also create new access problems for consumers. The digital transformation of financial services described in Chapter 4 is a good example of this double-edged sword.

The coalition Government's (2010-2015) introduction of Pension Freedom and Choice (HM Treasury, 2014) created concerns about access to help and advice for consumers, both in terms of financial security in later life and more generally. A new, free guidance service, Pension Wise, accessible through both online and offline routes, has been established. This will help some consumers make their own better informed decisions, but for many the outcome of guidance will be signposting towards regulated advice, which is often in short supply for consumers with modest resources. The Financial Advice Market Review (FAMR) was established to improve the availability of advice to consumers (HM Treasury and FCA, 2015). High on its agenda is the use of technology to offer more cost-effective advice models, particularly for consumers who do not have significant wealth or income. This is something the FCA is keen to work with firms to test, for example through its Regulatory Sandbox (FCA, 2015f).

2.4.4 Safeguarding access

Safeguarding efforts have generally been achieved by pressure on the industry and Government from consumer groups and campaigners. They have taken the form of voluntary agreements between Government and industry, or industry and consumer organisations, or changes in legislation as the examples in Chapters 4-8 show. In the case of banking, the Payment Accounts Directive aims to ensure access to bank accounts with basic features for most EU citizens. However, consumers must still be able to prove their identity in line with Anti-Money Laundering requirements, which can be a significant hurdle as we discuss in Chapter 5.

Safeguarding access to financial services may take a number of different forms. First, it can mean ensuring that firms do not unfairly withhold access from eligible consumers. This can be delivered through the legal system, for example in cases where firms breach equality or disability discrimination laws. The FCA can also perform this function through conduct regulation and, where necessary, enforcement. Another possible role for the FCA is influencing firms' behaviour through the supervisory process. Supervisors could, for example in light of FCA Principles for Business 6 and 7 (see below), press firms to explain to consumers the reasons they have been turned down for a product or service and possible ways to increase their likelihood of being accepted in the future.

FCA Principles for Business 6, Customers' interests: a firm must pay due regard to the interests of its customers and treat them fairly.

FCA Principles for Business 7, Communications with clients: a firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading. (FCA, 2014b)

Second, safeguarding access can relate to firms withdrawing existing access to services. An example here is bank branch closures; commercial decisions by banks that may disproportionately harm certain consumer segments such as older people or people in low-income communities (Leyshon and Thrift, 1996; French et al, 2014) and small businesses. As we see in Chapter 4, efforts to safeguard physical access to banks have taken the form of voluntary agreements primarily between Government and the industry, brought about by pressure from consumer organisations and campaigners. These include a now-defunct voluntary agreement between Government and some of the 'Big Four' banks to keep open 'the last bank in town' (Campaign for Community Banking Services, 2015). An Access to Banking Protocol agreed by the Government and banking industry, with FCA involvement, came into effect on 1 May 2015 (British Bankers Association, 2015a). This recognises that branch closure decisions are ultimately a commercial decision for the banks, but imposes obligations on them to engage with communities about post-closure provision. The FCA could be asked to consider confirming the Protocol as Approved Industry Guidance to provide a formal process for firms to engage with consumers if their local branch is closed.

The FCA has not been directly involved in mandating access to financial services where it would not otherwise be provided, for example by requiring firms to serve unprofitable or high-risk consumers or offer unprofitable products and services. Again, banking is a good example. Providing basic bank accounts (Chapter 5) and access to bank accounts for people with convictions (Chapter 5) were the result of agreements primarily between industry and Government, or industry and consumer organisations. Action to provide access to home insurance for homeowners living in areas of high flood risk through the Flood Re initiative (which required primary legislation – in the form of the Water Act 2014) was brokered primarily by Government with the insurance industry (Chapter 7). Universal provision of financial services, and the complex cross-subsidies that can be involved, are discussed in more detail in Chapter 9.

Consumer credit is another area that butts closely up against social policy, because a proportion of people borrow to pay for everyday essentials, and these are likely to be people on low incomes. We did not find any precedent for the FCA to directly promote or safeguard access to credit, although there were exclusions for some not-for-profit lenders (Community development financial institutions (CDFI's)) from the regulations that implemented a cap on high-cost short-term loans to ensure continued access to these socially important loans (FCA, 2014c).

3 Research methods

This Occasional Paper is part of an ongoing programme of work on Access to Financial Services by the FCA's Consumer Insight Department. An important part of this work is the FCA's engagement programme with consumer and special interest organisations, as well as with firms and trade bodies. (Box 3.1).

Box 3.1: FCA Engagement

A core part of the FCA's approach to understanding consumers' experience is by conducting consumer research and through its engagement programme with consumer and special interest organisations (Coppack et al, 2014). The FCA's relationship with consumer representative organisations has been instrumental in developing its approach to access and financial inclusion, allowing it to better understand how different people are being denied access across the UK. This network also gave access to the consumers interviewed for the large scale-qualitative research study the FCA commissioned, described below. In addition, a number of firms and trade bodies (listed in Appendix 1) are engaged in an effort to understand better the access issues faced by consumers in the UK.

Below is an overview of the research carried out and commissioned by the Consumer Insight Department since September 2014, which forms the basis for this Occasional Paper. Further details about the research are provided in Appendix 2. In producing this Occasional Paper, the authors synthesised and extended the research, as described below.

The research is important because it illustrates that access is often a hidden problem, even though it potentially affects large numbers of people and causes considerable consumer harm. Consumers who fail to access products and services, either through being refused or not engaging with the market at all, are not captured in any monitoring or statistics and so are largely invisible to regulators. This makes it difficult to quantify the scale of access problems. The research also shows that it is not just vulnerable consumer groups who have access problems.

3.1 Desk research

The FCA's Consumer Insight Department conducted a comprehensive in-house review of evidence and research on access and financial inclusion, focusing mainly on material published since 2009. The sources the team reviewed included research and evidence reports published by charities and non-profit organisations, social research organisations, consultants and academics. They also used FCA intelligence, such as case studies from its Consumer Helpline, information from supervisors, letters from MPs representing their constituents, information gained from the Financial Ombudsman Service, FCA annual surveys and the FCA's Consumer Spotlight segmentation model.

From this desk research, the Occasional Paper authors and the Consumer Insight Department identified five examples of access issues that are linked to bigger technological and social trends:

1. How consumers' access to financial services is affected by the shift to online delivery channels resulting from the digital transformation of the financial services industry (Chapter 4);
2. The impact on access to banking of Know Your Customer and Anti-Money Laundering requirements, as part of financial crime prevention (Chapter 5);
3. How access to consumer credit is shaped by automated processes (Chapter 6);
4. The use of data in general insurance risk assessment and underwriting, as part of a wider trend to segment markets to a more granular level (Chapter 7); and
5. Access to mortgage borrowing in an ageing population (Chapter 8).

These five examples shaped the design of the qualitative research, described below and in detail in Chapters 4-8. They do not represent all access issues, but they are a useful way to examine the types of access issues that consumers experience, how they arise and possible solutions. Based on the examples, Chapter 9 sets out a taxonomy that can be applied to access issues more generally.

In producing this Occasional Paper, the authors also carried out further desk research which focused on:

- Understanding the major social and technological changes that give rise to access problems;
- Understanding the sorts of access issues that occur as a result of these changes and their impact on consumers;
- Identifying examples of initiatives and activities to address access problems; and
- Using official statistics and published survey data to give a sense of the scale of the access problems that ordinary consumers face.

3.2 Qualitative research

The research company ESRO undertook a substantial qualitative research study on Access for the FCA between July and November 2015 (Rowe et al, 2016). The research comprised Expert Interviews, Consumer Interviews, and Consumer Discussion Groups. An overview of the research methods is provided below. ESRO designed the research around the five example access issues identified in the desk research (described above).

3.2.1 Expert Interviews

28 Expert Interviews were conducted by telephone with a wide range of stakeholders, including industry representatives, non-profit advice services and organisations that represent and advocate for consumers⁸. The purpose of the Expert Interviews was to get up-to-date information about access problems faced by consumers and to better understand the policy environment for industry and consumer organisations.

As well as the Expert Interviews conducted by ESRO, in April 2015 Professor Sharon Collard conducted interviews with FCA staff, to explore views and experiences of access issues they have come across during their work at the FCA.

⁸ The consumers represented by these organisations included older people, young people leaving care, people with critical illnesses, people with learning disabilities, travellers, homeless people, people who had experienced domestic violence, serving and ex-military personnel and people on low incomes.

3.2.2 Consumer Interviews

ESRO conducted 51 in-depth face-to-face Consumer Interviews to understand consumers' experience of the example access problems identified in the desk research.

For this stage of the research, the respondents were mainly selected from consumer segments that research shows have a high risk of experiencing access problems. This includes people living on a low income, those with critical illnesses, disabilities or learning disabilities, older people and people with low levels of numeracy and literacy. Respondents were recruited based on their personal experience of access problems. A fuller description of the people interviewed by ESRO is provided in Appendix 2.

3.2.3 Consumer Discussion Groups

Following on from the Consumer Interviews, ESRO conducted six Consumer Discussion Groups. The purpose of these was to reflect further on the impact of access problems and to explore consumers' experience of innovation or best practice in promoting access to financial services.

In order to get a good range of consumer views and experiences, the respondents who participated in the Consumer Discussion Groups were different from those who took part in the Consumer Interviews. Like the Consumer Interviews, the people who took part in the Discussion Groups had personally experienced access problems. However, at the FCA's request the recruitment of participants for the Discussion Groups focused on 'mainstream' consumers, i.e. they were not specifically selected because, for example, they were on low incomes or had problems with literacy or numeracy. A fuller description of the people who took part in the Discussion Groups is provided in Appendix 2.

4 Digital transformation

In a relatively short period of time, the digital transformation of financial services has completely changed the way most people interact with money. A large proportion of payments are now made electronically, the internet is a major source of information about products and services and online applications are routine. Retail financial services may soon reach a ‘tipping point’ where their delivery to consumers is predominantly online or digital (see, for example, PWC, 2011).

These changes potentially affect large numbers of consumers. While they deliver benefits for many, there are concerns about access for some consumer groups in this rapidly-changing environment (Evans, 2016; Lloyds Bank/Accenture, 2016; Financial Inclusion Commission, 2015). Our focus is the online delivery of financial services. Subsequent chapters explore other aspects of technology in financial services and their implications for access, such as the automation of routine processes (Chapter 6) and firms’ use of data to segment consumers (Chapter 7).

4.1 Context

At the start of 1999, just 10 per cent of UK households had internet access; by 2015, this figure had increased to 86 per cent of British households (ONS, 2015b; Table 25). Six in ten UK adults (61 per cent) use their mobile phone to go online, rising to nine in ten young people aged 16-24 (Ofcom, 2015a). The proportion of people who consider internet access to be a necessity rose from six per cent in 1999 to 41 per cent in 2012, not far behind car ownership (44 per cent) (Poverty and Social Exclusion, 2016).

The internet has transformed how consumers research, choose, buy and use financial products. While information is still available ‘offline’, access to it has largely shifted online. This ranges from firms’ information about products to reviews and information from consumer organisations and personal finance commentators and price comparison information produced by comparison websites (Box 4.1). Instead of picking up and filling in an application form in-branch or through the post or applying over the telephone, people now routinely apply for financial services online. In 2015, for example, two-thirds of people buying home insurance did so online (Intel, 2015). Help for consumers to select and buy products may be available over the telephone, through videoconferencing (such as Skype) or through webchat⁹.

Box 4.1: Price Comparison Websites

Price comparison websites, run for-profit, play an important role in the consumer financial journey nowadays, especially for products like general insurance and credit cards. The FCA’s Consumer Spotlight survey shows that in their most recent purchase of a credit card, 39% of UK consumers had used a price comparison website. The figure was 57% for car or home insurance. Different consumer segments show considerable variation in their use of price comparison websites. People who are ‘Hard Pressed’, ‘Retired with Resources’ and ‘Retired on a Budget’ are much less likely to use price comparison websites than the general population. (Source: FCA, 2014d)

Once consumers have taken out a financial product, there may be options or requirements for them to manage their account online. For some products, this is part of the terms and conditions, sometimes in return for preferential rates. Aside from product-linked apps, there are increasing numbers of apps and online tools to help consumers manage their finances, for example by providing aggregate information from all their different accounts (Consult Hyperion, 2015).

⁹ Webchat is a type of internet online chat that does not require users to install specialised chat software

4.1.1 The growth of online and mobile banking and payments

The seeds of remote banking were arguably sown in 1967, with the launch of Automated Teller Machines (ATMs), also called cash machines. Since then, banking and payments innovation has developed hand-in-hand with advances in technology. Consumers have generally been keen to take up online banking and, increasingly, mobile banking and payments. Six in ten (56 per cent) of UK adults aged 16 and over use internet banking (ONS, 2015c, Table 6). By mid-2015, 22.9 million banking apps had been downloaded in the UK, a rise of 8.2 million in one year; and £2.9 billion per week was being transferred using banking apps (British Bankers Association, 2015b). The growth of internet and mobile banking in the UK has been mirrored elsewhere, and some other European Union states, notably the Scandinavian countries and the Netherlands, have even higher levels of internet banking. (Eurostat, 2015).

4.1.2 Bank branch closures

UK banking traditionally centred on physical branches and personal interaction with bank staff. Since the 1990's however, the bank branch network has steadily reduced, particularly in less densely populated areas (Dunkley and Arnold, 2014). In 1988 there were 20,583 branches (Edmonds, 2015a) but by the end of 2015 there were reported to be only 8,400 branches¹⁰ (Campaign for Community Banking Services, 2015). As a consequence, the UK now has a much lower number of bank branches per capita than the United States and most other European countries (French et al, 2014). One study estimates that almost a quarter of the UK's remaining bank branches could close by 2020 (McKinsey, cited in Wallace, 2015).

The major banking groups are closing branches for a number of reasons. These include falling footfall as more consumers conduct basic transactions remotely, a need to cut costs in the face of increased capital and regulatory requirement since the Global Financial Crisis, challenges from new, branchless banks, such as Atom as well as non-bank digital firms, such as peer-to-peer platforms and payment providers.

Where branches remain, consumers increasingly use self-service machines for transactions that were previously carried out by a cashier, like withdrawing cash, paying in cheques and cash, paying bills and payments and managing direct debits and bank transfers (BBA, 2015; Peachey, 2014). As we see in Box 4.6 below (section 4.5.3), video banking is used by some banks to offer customers a personal banking service.

4.2 Current regulation

Governments and regulators around the world have recognised the wide-ranging regulatory implications of financial technology. On the one hand, they are keen to see greater innovation and enhanced competition, on the other they need to ensure market integrity and consumer protection (see, for example, Gadd and Gapes, 2015). We describe here some examples of relevant regulation.

The FCA rules (with which all FSMA regulated firms, including banks and building societies must comply) include high-level general principles that are relevant to digital transformation. These include the fair treatment of consumers (Principle 6) and communications that are clear, fair and not misleading (Principle 7) (FCA, 2014b). How firms deliver products and services to consumers is largely considered a business matter, which means there is, for example, no legislation or regulation governing access to branch networks. As we go on to discuss, there have been unsuccessful voluntary agreements in the past to try to maintain a 'last bank in town'.

¹⁰ This figure relates to retail bank branches and includes around 40 branches of the new bank Metro but excludes 200 'branches' of Handelsbanken UK because its customers have to use other banks' counters.

There is a large body of regulation that governs how firms communicate with consumers which is relevant in an increasingly digital age. The FCA's Conduct of Business Standards contain rules governing communicating with consumers, including distance communication (COBS 4; FCA, 2014a), which focus predominantly on the content and timing of communication. There are also specific rules concerning how banks communicate with their customers, including statements of account (BCOBS 4.2; FCA, 2014a).

The provision of payments services has continued to evolve and attract innovation since the Payment Services Directive was agreed in 2007. The Directive was designed to promote competition, create a level playing field for providing payment services and enhance consumer protections and transparency of information. The revised Payment Services Directive (PSD2) takes effect from January 2018. It is designed to update and future proof the regulation of payment services in the face of rapid change and innovation, while continuing to maintain consumer protection. It also provides legal clarity for new and emerging payments technologies and aims to improve the security of payments.

The Payment Systems Regulator (the PSR) launched in April 2015. An independent subsidiary of the FCA, the PSR is a competition and economic regulator responsible for making sure payment systems operate in the interest of all users (including consumers).

4.3 Issues

The digital transformation in financial services has improved access and choice for many, particularly where physical access is difficult. However, to take advantage of this, consumers must have access to networks and technology to get online and be willing and able to interact with online financial services. If not, as subsequent examples show, they may find themselves in a financial services 'void', as firms continue to move more of their services online and reduce the options for speaking to a member of staff face-to-face.

For consumers already at risk of access problems and exclusion, these additional physical and digital barriers can be insurmountable. The evidence highlights particular concerns about the continued decline in bank branches and the options and impacts for consumers who lack access to them. Access to ATMs, the continued use of cheques and being able to get paper account statements are other issues where evidence shows consumers experience access problems.

4.3.1 Access to networks to get online

In the UK, access to networks to get online is widespread but not universal, and the quality of network connections varies significantly.

At the start of the millennium, only two per cent of UK households used broadband, while the majority relied on much slower dial-up services (Ofcom, 2002). By 2014, broadband had become so ubiquitous that the telecoms regulator stopped collecting data about it (Ofcom, 2015b).

While coverage of fast broadband services in the UK is improving, it remains poorer in some areas, particularly rural locations. This makes it more time consuming for consumers to complete online activities or requires repeated attempts to complete a transaction. Almost 2.4 million (eight per cent) of the UK's premises¹¹ cannot access broadband speeds of 10 Megabits per second (Mbps) (Ofcom, 2015c), which is the Conservative Government's planned Universal Service Obligation (Hirst, 2016). In rural areas, this rises to 1.5 million (48 per cent) of premises. Nine per cent of rural premises can only receive a maximum data speed of 2Mbps (Ofcom, 2015c). Levels of mobile coverage are also lower in rural areas, with only 31 per cent of rural premises receiving indoor coverage and being able to speak on the phone, compared to 91 per cent in urban areas (Ofcom, 2015c).

¹¹ Residential premises and premises of small and medium sized enterprises.

Urban areas, too, are not without problems. Some urban areas still experience internet ‘not-spots’ because of difficulties delivering broadband in specific locations (House of Lords, 2015).

4.3.2 Access to technology to get online

While the majority of the population has an internet connection in their home (typically, fixed broadband), around 3.8 million households in the UK, or 7.3 million adults, do not (Table 4.1)¹².

Table 4.1: UK households with no internet connection, 2015

Type of household	No internet connection % of households ¹	No internet connection Millions of households ²
1 adult aged 16 to 64	20	0.8
1 adult aged 65+	50	1.8
2 adults aged 16 to 64	4	1.0
2 adults, 1 at least 65+	16	
3+ adults all ages	2	
Households with children	3	0.2
All households	14	3.8 million

¹ ONS (2015b), Table 25. ² Calculated from ONS (2015b), Table 25 and ONS (2015d), Table 7.

Access varies markedly by household type. Single person households, particularly those aged 65 and over, are the least likely to have an internet connection (Table 4.1). On several different measures, internet access and use is also significantly lower than average among adults with a disability, those in socio-economic groups C2DE and those on low incomes (Ofcom, 2015a). There is a high level of crossover between the types of consumers likely to be offline and those at risk of access problems and financial exclusion. Other research confirms that internet access and use ‘*remain structured along socio-economic and educational lines that work against already disadvantaged groups*’ (White and Selwyn, 2013: 1).

Among households without an internet connection, over half (53 per cent) feel they have no need for it (ONS, 2015b; Table 27). In another survey, a similar number (52 per cent) could see no advantage to being online, rising to 58 per cent among the 65 and over age group (Ofcom, 2015a).

Other key reasons for lack of access include consumers not having the right skills to operate online (Table 4.2). Evidence to a House of Lords Inquiry estimated that around 20 per cent of the population (9.5 million people) lack a minimum level of digital skills, of which 49 per cent were disabled, 63 per cent aged over 75 and 60 per cent had no formal qualifications (House of Lords, 2015). Another source puts the number of people with low digital capability at 11.1 million (Lloyds Bank/Accenture, 2016).

The cost of getting online is also a barrier – not only the hardware and software that is required, but also the cost of connecting to the internet (Table 4.2). These findings echo research with older people aged 55 and over who were offline that, overall, they felt the downsides of getting online outweighed the perceived advantages (Britain Thinks, 2015).

¹² In Britain (i.e. England, Wales and Scotland) 14 per cent (3.6 million) households do not have an internet connection. If the same percentage applies across all UK households (i.e. including Northern Ireland), this suggests that around 3.8 million households, or 7.3 million adults, in the UK have no internet access.

Table 4.2 Reasons households give for not having an internet connection, 2015

Reason	Proportion of households giving this reason % of households¹	Number of households giving this reason Millions of households²
Don't need internet	53	2.0
Lack of skills	31	1.2
Equipment costs too high	14	0.5
Access costs too high (broadband, phone)	12	0.5
Have access to internet elsewhere	7	0.3
Privacy or security concerns	5	0.2
Physical or sensorial disability	5	0.2
Other reason	14	0.5

¹ONS (2015b), Table 27; ²Numbers calculated from ONS (2015b), Table 27 and ONS (2015d), Table 7

4.3.3 Capability and willingness to be an online financial consumer

Having taken the plunge to get online, consumers are not always ready to engage online with financial services. Six in ten UK adults say they bank online, but internet users aged 55 and over and adults in the DE socio-economic group are less likely to bank this way (Ofcom, 2015a). The FCA's Consumer Spotlight survey shows that 80 per cent of all consumers who use online banking use it to make payments, but this falls to 71 per cent of 'Hard Pressed' consumers and 65 per cent of those who are 'Retired on a Budget' (FCA, 2014d).

The qualitative research on Access commissioned by the FCA (Rowe et al, 2016) included instances of digitally competent and confident consumers who were able, but unwilling, to do their banking online. While they may use the internet to search for deals and compare products, they were uncomfortable with the idea of accessing their bank accounts online. This was largely due to security concerns, worries about their own ability to detect fraudulent activity and to be entirely confident about which transactions and sites were trustworthy. 'Horror stories' in the media about hacking scandals had also put some of them off.

"I've read about it in the paper. They say look for that padlock to know it's secure but I've read that hackers can fake that too." (Consumer interview, Yeovil; Rowe et al, 2016: 42)

The qualitative research featured consumers who were not online (or did not go online to manage their personal finances) describing how this digital 'void' affected them. They felt they were missing out on cheaper products and services only sold online, and were also concerned about not being able to access alternative providers who might offer products and services more suited to them than those offered by the big high-street brands.

For at least some of the respondents, not being able to talk to a member of staff was a major barrier to going online to buy financial services. When it came to choosing a new or different financial services provider, visiting a 'bricks and mortar' company and talking to a member of staff face-to-face was a way for consumers to gauge whether a firm was trustworthy.

"My son told me that I could get a better deal online, but I just find the idea of not being able to pop in to talk to someone so stressful that I couldn't go for it." (Consumer interview, Yeovil; Rowe et al, 2016: 42)

As Box 4.2 shows, there are marked differences between newer internet users (started to engage online within the last five years) and established users (engaging for more than five years) (Ofcom, 2015b). It clearly takes some time for users to adopt online technology to manage their finances and interact with financial services, and some may never do so, while many may require support to do so safely and securely. Developments such as biometric banking (where customers can use fingerprint or face recognition to access online banking, rather than remember passwords and security information), may help encourage the safe use of online financial services (BBC, 2016a).

Box 4.2: Differences in use between newer internet users and established users

Research shows significant differences in how newer and established users use the internet (Ofcom, 2015b)

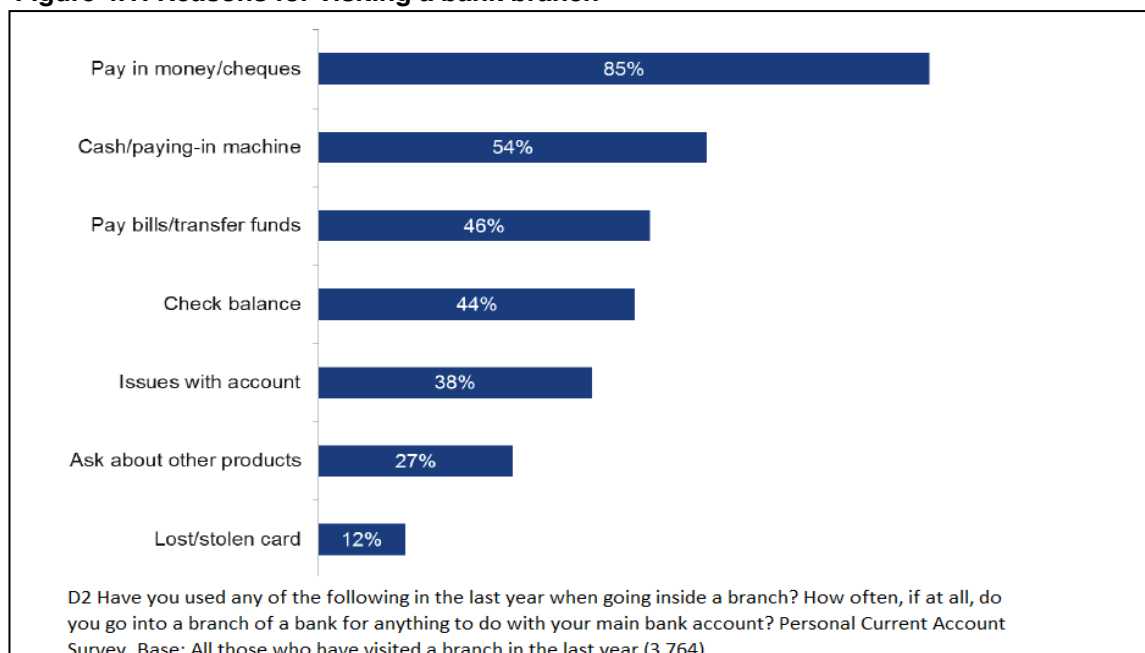
- Only 19 per cent of newer users would bank or pay bills online compared with 46 per cent of established users.
- Only 9 per cent of newer users would fill in a form or application online compared with 14 per cent of established users.
- 33 per cent of newer users would never enter their home address on a website compared with 15 per cent of established users.
- 39 per cent of newer users would never enter their credit card or debit card details online compared with 19 per cent of established users.
- Newer users are less confident of staying safe online (21 per cent very confident compared with 45 per cent of established users).

4.3.4 Access to bank branches

While there has been a steady decline in the UK's branch network, physical bank branches are still important, particularly for those consumers who are less likely to have internet access and to bank online.

Research shows that about four in ten bank customers (39 per cent) use a branch at least once a month. Low-income customers and those aged 45 and over use branches much more frequently. Customers who bank exclusively through branches (27 per cent of the survey sample) were more likely to use a branch at least once a month, compared to the 17 per cent of customers who said they use a branch less than once a year or never. Nearly two-thirds (63 per cent) of respondents who had visited a branch in the last year (83 per cent of the sample) said that having a convenient local branch was essential or very important (GfK NOP, 2015).

Consumers give paying in money or cheques as the most common reason for visiting a branch (Figure 4.1). It is a service particularly highly valued by small businesses, older people, schools, clubs, societies and small charities (see, for example, Treasury Select Committee, 2011). Other research shows that the branch remains the preferred consumer channel for buying more complex financial products such as pensions (Hollingsworth and Mian, 2014), for more complex transactions and for big decisions like taking out a mortgage (Evans, 2016).

Figure 4.1: Reasons for visiting a bank branch

(Source: GfK NOP, 2015)

Branch closures are most likely to impact on rural areas where 18.5 per cent of the population of England and Wales live (10.3 million people) (ONS, 2013a). In Northern Ireland, that figure rises to 37 per cent of the population (667,000 people) (NISRA, no date). The qualitative research on Access commissioned by the FCA (Rowe et al, 2016) highlighted the problems faced by consumers living in rural areas, and not only those who were older or disabled. The issues raised by respondents included costly, infrequent and unreliable public transport services which sometimes resulted in having to resort to expensive taxi trips.

Consumers living in poorer neighbourhoods have also seen their access to bank branches decline from an already low base, due to *'a proportional shift of the overall branch network to wealthier areas as branches in poorer areas are closed at a much faster rate'* (French et al, 2014). Even within branches, access can vary depending on the type of customer. In the past, for example, some banks restricted counter access for basic bank account customers. It is possible that, in the future, only the wealthy or those willing to pay for a personal service will be able to talk to bank staff in person, *'branches will focus on selling to high value customers, whilst low value transactional customers will be 'guided' to ATMs and direct channels'* (Jones Lang LaSalle, 2012: 22; cited in French et al, 2014). As bank branches close, consumers have to rely more heavily on online and remote services. In relation to mobile banking and payments, the FCA recognises that *'there is the potential for those consumers that do not have access to mobile or online banking to find themselves financially excluded as everyday banking and payments facilities are moved onto digital channels'* (FCA, 2014e).

In this situation, consumers who are completely offline and unwilling or unable to manage their finances online may turn to others for help. Official statistics show that 'proxy' use of the internet (by someone else on their behalf) is fairly common among non-internet users, reported by 31 per cent of non-users (Ofcom, 2015a). The qualitative research on Access commissioned by the FCA (Rowe et al, 2016) also gives several examples of 'proxy' online personal finance management (Box 4.3).

Box 4.3: 'Proxy' online personal finance management

In the qualitative research on Access commissioned by the FCA, examples of 'proxy' online financial management included respondents who relied on others to manage their finances both online and offline; and respondents who performed this role for others.

"I rely on my daughter for everything. She takes me to the Post Office to get my pension, she looks at my bank account online for me and she pays all the bills for me." (Consumer interview, Northern Ireland; Rowe et al, 2016: 43).

"I help my piano teacher because he just can't see well enough to look at his accounts online." (Consumer interview, Leeds; Rowe et al, 2016: 43).

While in practical terms these 'proxy' arrangements seemed to work fairly well, both parties could feel uneasy – especially around making payments and withdrawing funds. The carers perceived themselves to be verging on possible criminality, while the looked-after person was sometimes anxious about the situation in which they were placing their carer, or concerned about the amount of trust they had to place in another person.

The qualitative research also provided examples of consumers sharing their debit card and PIN number with friends, relatives or others to access cash from ATMs which they could not visit personally because of poor health, limited mobility or affordability issues.

"Sometimes I ask my hairdresser to get some money out for me. It's to pay her but then some more for me, as she can get to the cash machine a lot easier than me." (Consumer interview, Great Yarmouth; Rowe et al, 2016: 50)

4.3.5 Access to ATMs

The evidence shows that the ATM network tends to be worse in poorer areas. As a result, consumers may have to pay to access their cash if there is not a convenient free-to-use cash machine, for example using a fee-charging cash machine, or having to travel some distance to access an ATM. Any amount charged to use an ATM can be disproportionate for low-income households, who tend to make smaller-value cash withdrawals from ATMs (Treasury Select Committee, 2005). It can also be difficult or impossible for consumers who have physical, cognitive or sensory impairments to use ATMs, leading to the sorts of 'proxy' arrangements described above (Toynbee Hall and Policis, 2012; 2013; Box 4.4).

Box 4.4: Access to ATMs

Louisa is confined to a wheelchair. She is highly dependent on a paid-for carer for personal care. A sociable person, she has embraced technology and social networking to keep up with a large circle of friends and family. The height and location of ATMs and payment terminals mean she can rarely withdraw cash or pay for items herself in retail outlets, so her carer obtains cash and uses her card to pay for goods when they are out shopping. When he goes on holiday, she must either stockpile cash or wait for a family member to visit as she does not trust temporary carers in the same way. Using voice-activated software Louisa manages her financial affairs via Internet banking, a source of considerable satisfaction and one of the few areas of privacy and control in her life.

(Source: Toynbee Hall and Policis, 2012 (abridged)).

4.3.6 Cheques

As electronic payments have become commonplace and mobile payments continue to gain ground with consumers, the use of cheques in the UK has declined rapidly. From a peak of four billion cheques written in 1990, use fell to 644 million in 2014, with forecasts of around only 256 million by 2024 (Cheque and Credit Clearing Company, no date). Notably, the average value of cheque payments tends to be considerably higher now than it was in the past, with an average cheque value of £242 (Consult Hyperion, 2015). The general demise of the cheque masks its continued use by small businesses, older people, clubs, schools, societies and small charities, however (Treasury Select Committee, 2011).

There has been fierce debate in the UK about phasing out cheques. In 2009, the Payments Council (the then-responsible body for UK payments systems) set October 2018 as the date to end universal cheque clearing. This would effectively end cheque usage in the UK, provided there were “acceptable alternatives” in place. The basis for this decision was the steep decline in cheque usage and the cost to firms of continued cheque usage (in time and money).

Concerns from Age UK, the Federation of Small Businesses and others about these proposals resulted in a Treasury Select Committee inquiry in 2010-2011. Following the inquiry and the Government's response, the Payments Council announced in July 2011 that cheques would continue *‘for as long as customers need them and the target date for possible closure of the cheque clearing in 2018 has been cancelled’* (Payments Council, cited in Edmonds, 2014a). The abolition of the cheque guarantee card, which effectively served to further reduce cheque usage, went ahead in 2011.

4.3.7 Access to account statements

The switch away from ‘hard copy’ paper statements that they receive by post or in-branch to ‘soft copy’ electronic statements via email or access online, is a major, and perhaps under-estimated, change in banking and financial services.

Access issues include the fact that banks do not provide access to online statements beyond a certain timescale, which varies by firm. By changing banks, consumers can potentially lose access to historical data. Copies of online statements are not considered to be official documents by many organisations and consumers may be charged a fee to obtain an official, paper copy of an online statement (Keep Me Posted, no date).

4.4 Through a consumer's eyes: what might good look like?

As we have described, retail financial services may soon reach a ‘tipping point’ when delivery to consumers becomes predominantly remote or online. While this brings significant benefits for many consumers, as does using technology to improve accessibility for people with disabilities, it risks marginalising or excluding others. In terms of what good might look like from a consumer perspective, ideally consumers would continue to have some choice of delivery channel for financial services.

- Consumers can access and use financial services in a way that suits them (digital, non-digital or both) whatever their circumstances, without incurring extra costs or inconvenience.
- For online financial consumers it is important:
 - for firms to have robust, reliable and secure back-office systems;
 - to be able to use digital financial services easily and safely, and
 - to be able to speak to someone in person quickly and easily where necessary.
- For offline consumers, continued access to offline services and accessible banking.

The difficult question here is how much consumers who use digital financial services should cross-subsidise more expensive offline services for the benefit of a minority, some of whom may be offline through choice.

4.5 What is happening so far?

The digital transformation of financial services is far from complete and its potential to deliver better access to UK consumers has yet to be fully realised. Equally, the potential access issues it may create have not yet fully materialised. This section provides examples of current developments so far, which are summarised in Table 4.3. There may be other initiatives and schemes underway that are not captured in this Occasional Paper.

To date, the main focus has been on access to banking services, in the wake of bank branch closures and a move to online banking. More generally, consumer groups that represent segments of the population most likely to be disadvantaged by the move online, and older people in particular, have argued that the Government should ensure offline options remain available in both public and retail services (see, for example, Britain Thinks, 2015).

4.5.1 Network access

As part of its UK Digital Strategy, the Conservative Government plans to provide superfast broadband (speeds of 24Mbps or more, compared to basic broadband which is 2Mbps) to 95 per cent of the UK by December 2017 (GOV.UK, 2015a). They also plan to make it a legal right for every UK home and business to request fast broadband (Department for Culture, Media & Sport and Ed Vaizey MP, 2015). Regarding mobile networks, in 2014 the Government announced a legally binding agreement with mobile operators to invest in mobile infrastructure improvements and to guarantee voice and text message coverage from each operator across 90 per cent of the UK by 2017 (House of Lords, 2015).

In partnership with BT, Barclays has a 'Wi-Fi in our Community' project, to support the Government's Digital Inclusion Strategy (see below). The purpose is to provide free Wi-Fi for two years to communities that are at risk of digital exclusion, at sites including libraries, community centres, homeless hostels and sheltered housing complexes (Barclays, 2015).

A number of banks, including Barclays and RBS/NatWest provide free Wi-Fi in their branches for customers to use.

4.5.2 Digital skills

One of the elements of the Conservative Government's Digital Inclusion Strategy was to bring digital capability support into one place, through the establishment of digitalskills.com by the digital skills charity Go ON UK (Cabinet Office/Government Digital Service, 2014). This is designed to be a trusted source of information and advice on how to help individuals and businesses go online. Go ON UK has also developed a Basic Digital Skills Framework and a Digital Skills Charter (Go ON UK, no date).

There are also a number of bank initiatives to help people get online, and get more out of technology, including managing money online. Box 4.5 provides some examples.

Box 4.5: Examples of bank initiatives to help improve digital skills

Barclays has around 16,000 Digital Eagles who help their colleagues, customers and members of the general public to build digital confidence, through free training and online guides. 'Tea and Teach' sessions are run in branches and at local community sites, including care homes. Sessions focus on whatever is of most interest and use to attendees, be that Skyping with family, shopping online, money management or more. Barclays has also developed the Digital Driving Licence, designed by Digital Eagles and partner brands such as Microsoft and IBM. It provides an opportunity for everybody to gain good foundation knowledge to support them becoming digitally savvy and increase their digital skill, knowledge and confidence.

Lloyds Banking Group has a Digital Champions programme to help build the digital skills of customers and non-customers, for example to use internet banking, social media, or shop online. There are around 12,000 Digital Champions to date, with a target of 20,000 by the end of 2017. Digital Champions pledge to support at least two individuals, businesses or charities each year to make the most of the internet. In January 2016, Lloyds launched a partnership with the Chief Society of Librarians to link up Halifax's 2000 Digital Champions with the library network so they can support IT Taster Sessions that libraries run to improve people's digital skills.

RBS/NatWest has upgraded over 550 branches with new technology including iPads for customers to register and access online banking and free Wi-Fi access. Its Digital Champions provide support for customers who want help to improve their digital skills and use online banking.

(Sources: Barclays, 2015; FCA, 2016b)

4.5.3 Access to bank branches and banking services

As noted previously, bank branch closures are commercial decisions by banks that may disproportionately affect certain consumer segments such as older people, those in low-income communities (Leyshon and Thrift, 1996; French et al, 2014) and small businesses.

Efforts to safeguard physical access to banks have taken the form of voluntary agreements between primarily Government and the industry (brought about by pressure from consumer organisations and campaigners). These include a now-defunct voluntary agreement between Government and some of the 'Big Four' banks to keep open 'the last bank in town' (Campaign for Community Banking Services, 2015). The Access to Banking Protocol agreed by the Government and banking industry, with some involvement from the FCA, came into effect on 1 May 2015. This recognises the banks' absolute right to close branches, but imposes obligations on them to engage with communities about post-closure provision; and to put in place alternatives if a continued need for banking services is identified. Alternatives could include phone or internet services, and use of ATMs and Post Office branches (British Bankers Association, 2015a). The impact of the Protocol has not yet been assessed.

A number of banks have launched their own initiatives such as Mobile Branch Banking and video-banking to improve access to banking services. Box 4.6 provides some examples.

Box 4.6: Examples of bank initiatives to improve access to banking services

RBS/NatWest operates a Mobile Branch Banking service, which makes 651 stops each week in communities across England, Wales and Scotland. It is also used to serve customers with disabilities who may not be able to access a branch. Mobile Branch staff discuss banking needs with mobility restricted or elderly customers to find out how they can make a reasonable adjustment so they can access their accounts and other banking services. The branch vans provide banking services (cash transactions, bill payments, cheque deposits) and a telephone facility so that bank staff can obtain up-to-date account balances for customers. RBS/NatWest has invested in hi-tech mobile branch vans fitted with a satellite and iPads, so that customers can access their online bank account. (Source: FCA, 2016c).

Barclays provides Video Banking, which offers its customers digital face-to-face banking using a smartphone, tablet or computer (Barclays, 2015). Nationwide Now video links connect customers in branch to its financial consultants based elsewhere, for example for mortgage, banking and savings, investment and protection consultations. Available in 398 branches, the service has allowed customers in smaller branches to have 6 days a week access to consultants. This has also allowed branches with a higher footfall to use the service to reduce waiting times and provide a better customer experience (Source: FCA, 2016b).

4.5.3.1 Agency agreements between banks and the Post Office

The agent-correspondent model is widely used in countries with high proportions of the population outside the financial sector, to increase access to financial services and bring more people into the formal economy (Alliance for Financial Inclusion, 2011). In this way, banking services are made available through bank agents, such as retailers.

In the UK, access to banking services through the Post Office is also possible where agreements exist between the Post Office and individual banks. In the face of the Post Office's own reducing branch network, it has an access criteria agreement with the Government to maintain consumer access to postal and banking services.

In late 2015, 25 banks had arrangements with the Post Office for their customers to be able to make cash withdrawals and deposit cash and cheques through its 11,500 branches (Post Office, 2015). The number of Post Office branches has halved over the last 30 years but the Post Office is now committed to retaining broadly the current number to fulfil its access criteria agreement with the Government. Among other things, the criteria state that 99 per cent of the UK population, including 95 per cent of its rural population, should be within three miles of their nearest Post Office outlet, and 95 per cent of the population of every postcode district should be within six miles of a Post Office (Watson, 2015). This suggests that, even with bank branch closures, most people should be no more than six miles from an alternative facility for basic withdrawal and deposit facilities. However, in rural areas and for elderly or disabled people, even six miles may be a difficult, costly or impossible distance to travel. For example, in England, 11 per cent of rural dwellers have no access to a car and only 49 per cent can access a close-by regular bus service (Department for Food and Rural Affairs, 2015).

4.5.4 Access to ATMs

LINK is the UK's ATM network and sets the rules for ATM operators and card issuers who use this network. It is regulated by the Payment Systems Regulator, which also regulates other designated payment systems¹³. Most ATMs (free-to-use and pay-to-use) are connected to LINK.

Following a Treasury Select Committee inquiry in 2005 which highlighted limited free access to cash in deprived areas, LINK and its members funded a scheme to improve access in 1,694 Financial Inclusion Target Areas agreed between consumer groups, Government, the Treasury Select Committee and LINK (LINK Consumer Council, 2016; Edmonds 2014b). A total of 1,478 of these areas (87 per cent) now have free access to ATMs (LINK Consumer Council, 2016). Individuals and organisations who identify suitable sites in their area that would benefit from a free-to-use cash machine can also 'Suggest a Site' to LINK (LINK, no date). Further work has been carried out to improve access to ATMs in 957 areas that did not fall within the original Target Areas (Link Consumer Council, 2016; Toynbee Hall/Sliced Bread Consulting Ltd, no date).

There has also been an improvement in accessible ATMs for people with disabilities. There are now more talking ATMs for blind and partially sighted people, following a campaign by the Royal National Institute of Blind People (RNIB, 2016). Some banks have also introduced ATMs that are more accessible for wheelchair users (Independent Living, no date).

4.5.5 Cheques

In 2014 there was a Government consultation on the use of smartphone technology to allow the continued use of cheques (HM Treasury and The Rt Hon Sajid Javid MP, 2013). Subsequently, it was proposed to introduce cheque imaging to the UK. This means consumers can use a banking app to take an image of a cheque on their mobile phone and securely send the image to their bank to credit their account with the money. Bank customers will still have the option of paying in cheques the same way as they do now, e.g. in branch or by post (Cheque and Credit Clearing Company, no date). Banks and building societies can exchange images of cheques digitally to speed up the cheque clearing process.

Introducing cheque imaging in the UK requires a legislative change, which has been incorporated within the Small Business, Enterprise and Employment Bill. The approved Bill received Royal Assent on 26 March 2015, and the enabling legislation comes into force on 31 July 2016. The legislation enables the Cheque and Credit Clearing Company to work on agreeing an implementation plan with the relevant parties.

4.5.6 Account statements

On the move from paper to electronic account statements, the main pressure on the UK Government, the European Commission and service providers (such as financial services, energy and telecoms) has come from the 'Keep Me Posted' campaign (Keep Me Posted, no date). This is a partnership of charities, consumer groups and business funded by UK postal operators. The campaign believes that every consumer should be able to choose a paper copy of communication from banks, utility companies and other service providers, without being penalised (Keep Me Posted, no date). Research commissioned by the campaign which involved behavioural economics experiments with a mock bank statement and a notice of changes to overdraft fees, found that consumers understand information better when they receive mail by post (London Economics, 2015).

¹³ These are Bacs; Cheque & Credit; CHAPS; Faster Payments Scheme; Northern Ireland Cheque Clearing; Mastercard and Visa Europe. Accessed on 22/02/16 from: <https://www.psr.org.uk/payment-systems/who-we-regulate>

4.5.7 Regulation

In response to the evolution of digital financial services, the FCA has undertaken a number of initiatives to support innovation and financial technology, under the umbrella of Project Innovate. While these are not specifically designed to improve access to financial services or overcome access problems, they may generate new products and bring new firms into financial services that are interested in serving poorly served or unserved consumers.

The FCA's Innovation Hub, for example, supports innovator businesses to understand the regulatory framework and apply for authorisation, as well as identifying ways to adapt the regulatory framework to allow further innovation. The FCA also plans to set up a Regulatory Sandbox to provide a 'safe space' for businesses to test innovation in products and services, business models and delivery mechanisms (FCA, 2015f).

Separately, technology and innovation is regarded as an important opportunity to expand financial advice to consumers with modest income and wealth (HM Treasury and FCA, 2015).

4.5.8 Sprinting towards solutions

In April 2016, the FCA brought together a group of financial services and technology firms along with consumer groups for a 'TechSprint' event. Each development team was given 48 hours to come up with a prototype solution to overcome seemingly intractable access barriers.

Organisations taking part included peer-to-peer lender Funding Circle, FinTech firm iProov, technological innovator HCL, Lloyds Banking Group and Visa. Judges included representatives from the FCA, Post Office and Fidor Bank.

In direct opposition to normal commercial principles, the vast majority of TechSprint participants chose to create cross-organisational teams to maximise knowledge, experience and creativity. Freed from any one commercial perspective, business or technological model, the resulting solutions were framed entirely from the consumer's perspective.

The developed solutions ranged from working models to mobile, tablet and laptop applications that were virtually ready to use. Prototypes included advanced facial recognition, voice recognition with speech playback and a multi-lingual capability and simplified command buttons to help make services easier and simpler to use. Personal control over individual identity and data also featured strongly.

At least two of the winners' ideas have subsequently been explored further commercially and the FCA is currently looking at the viability of future TechSprint events around a range of issues under its Innovation and Technology business plan priorities for 2016/17.

Table 4.3: Examples of what is happening so far by:

What's being done by:					
	Government	Regulators	Firms	Consumers	Others
Network access	Investing in superfast broadband and better mobile coverage		Barclays Wi-Fi in the Community Banks offer free Wi-Fi in branch		
Technology to get online					
Digital skills	Building digital capability through Go ON UK		Bank initiatives to improve digital skills & confidence of staff, customers, general public		Community groups and others delivering digital skills training (with Go ON UK)
Access to banking	Access to Banking Protocol		Access to Banking Protocol		
			Video-banking		
			Mobile bank branches		
	Post Office access criteria agreement with Government		Agency agreements between Post Office and banks		Post Office: Agency agreements between Post Office and banks
Access to ATMs	Treasury Select Committee inquiry into ATM charges, which led to the LINK initiatives		LINK initiative to site ATMs in deprived communities and 'suitable site' initiative Talking and wheelchair accessible ATMs		Consumer groups: raised concerns about ATM charges, which led to the LINK initiatives. May suggest 'suitable sites' based on consumer feedback RNIB campaign for Talking ATMs
Cheques	Implementation of cheque imaging legislation		Implementation of cheque imaging legislation		
Account statements					Keep Me Posted campaign
Regulation		FCA Project Innovate initiatives			

5 Compliance and crime prevention

In the 21st century, efforts to prevent money laundering are closely linked to combatting terrorism. Nationally and globally, existing restrictions have been strengthened and new ones introduced. In addition, firms may withdraw financial services from consumers and businesses considered to be high risk, for example if they have links to countries where the EU and the USA have imposed economic sanctions.

For consumers, this can mean greater difficulty accessing products and services or the withdrawal of services. The bureaucracy and rules designed to prevent financial crime create a 'maze' which consumers can find impossible to negotiate. This situation is not helped when firms turn down consumers for reasons that are not clear or not properly explained and do not provide information to help consumers or signpost them to other services that could help.

While, in some situations, firms cannot give information immediately because of a risk of 'tipping-off' criminals, this reason should not be used inappropriately and ideally should not constrain the provision of information and signposting later on, if subsequently it becomes clear that this risk does not exist.

In relation to bank accounts, which are so important in modern day life, it is difficult to estimate the impact on consumers of this crime prevention activity. Approximately half of new bank accounts are opened by people recently arrived in the UK, to work or study, who do not have an established footprint with UK credit reference agencies (Ralph, 2016a) and so may encounter access issues in the account opening process.

"Bank account opening is a real point of entry to this country. I made three trips to the branch. I went to two different branches and got different information from them." (Tom, 27, cited in Ralph, 2016a: 11).

For unbanked consumers unable to open an account, this can be a significant problem. For example, a job offer can hinge on being able to open a bank account (Financial Inclusion Commission, 2015). An estimated 0.75 million people in the UK might like a bank account but currently cannot get one.

5.1 Context

A bank account is essential for financial inclusion because it offers money transmission services for receiving money (such as wages and benefits), payment services and a secure place to hold money. It can also act as a gateway to other financial products like savings accounts and consumer credit. Access to bank accounts has been improving this century and, by 2013-14, 93 per cent of UK households had a full-service current account and three per cent had a basic bank account. Even so, this means four per cent of households (just over one million households) still have no bank account at all (DWP/ONS, 2015, savings and investments data tables). In terms of individuals, around 1.5 million UK adults remain unbanked (Rowlingson and McKay, 2015).

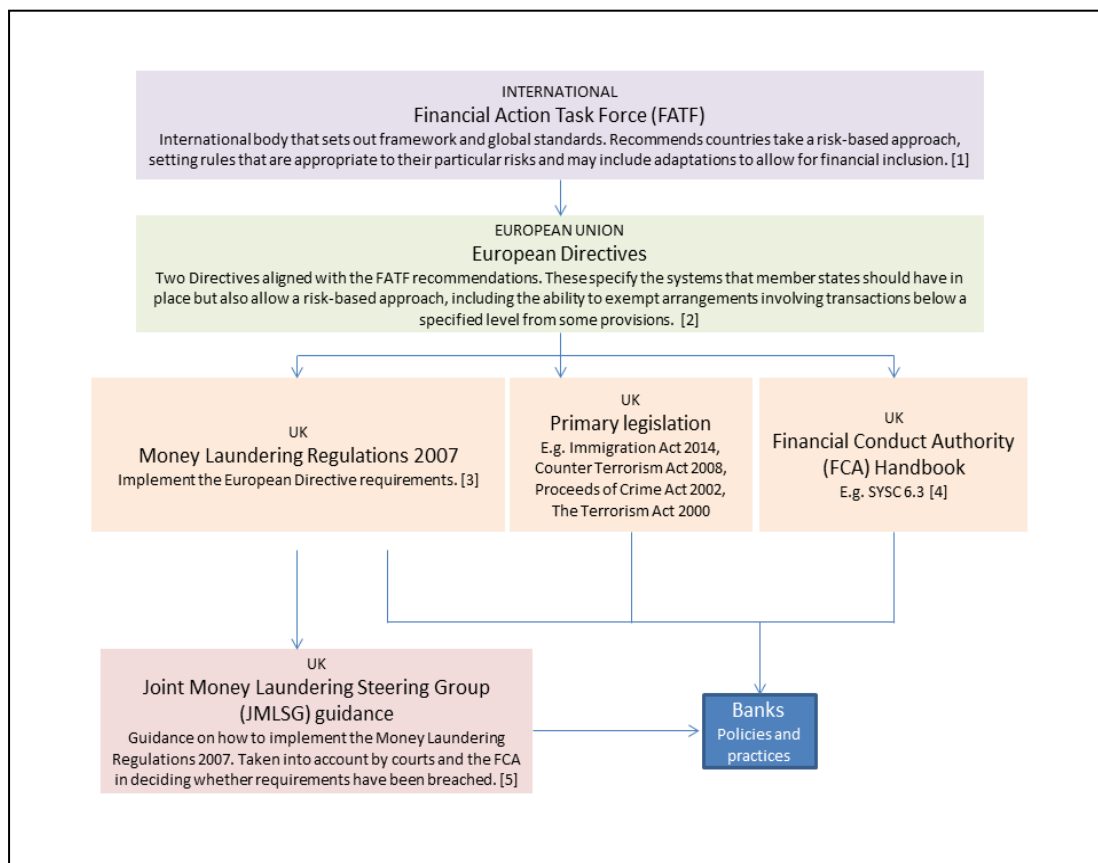
For the UK as a whole, there is no recent information on why unbanked individuals have no account. In previous research, half of individuals without an account said they did not want one (Financial Inclusion Taskforce, 2010). For some consumers, this may reflect the unsuitability of currently available products or a feeling of not being the type of customers that banks want, rather than a genuine choice to opt out of banking services. Even setting this caution aside, it seems that at least 0.75 million people might like a bank account but cannot currently get one.

Evidence shows that a significant barrier for some groups is the way banks implement their obligations to 'know your customer' to prevent crime, screen for fraud or check creditworthiness. These practices can exclude individuals who are not able to produce standard forms of identification (but do have other valid forms of identification) (Edmonds, 2015b; DOSH, 2014; Whyley et al, 2013; Mitton, 2008) and inhibit the activities of some alternative payment services that unbanked people might otherwise use (see, for example, BBC, 2013). That banks should act in this way is perhaps not surprising. The UK Government has assessed banks to be the part of the financial system most vulnerable to money laundering, because they host the majority of all transactions that take place in the economy (HM Treasury and Home Office, 2015). Reviews of compliance with Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT) regulations have tended to criticise banks for under-estimating risks and doing too little (see for example FCA, 2013a). Additionally, regulators have imposed hefty fines and deferred sanctions on banks that breach anti-money laundering rules. This is particularly the case in the US, including \$1.9 billion paid by HSBC to US and UK regulators relating, among other matters, to extensive laundering of Mexican drug money (Durner and Shetret, 2015).

Current accounts are also the financial product most targeted by fraudsters, and fraud rates in the UK are increasing, particularly identity fraud (which is committed against an individual by an unknown or unrelated third party). In December 2015, detected fraud rates for current account applications stood at 156 in every 10,000 applications, up from 73 in every 10,000 applications in January 2015 (Eaves, 2016).

5.2 Current regulation

Like any deposit-taking institution, UK banks are subject to a hierarchy of recommendations, laws, regulation and guidance designed to stop criminals benefiting from the proceeds of their crimes and prevent the financing of terrorism (Figure 5.1). Collectively, these are referred to as Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) requirements.

Figure 5.1: Anti-money laundering requirements in the UK

Sources: [1] Financial Action Task Force, 2012. [2] Directive 2005/60/EC; Directive (EU) 2015/849. [3] Money Laundering Regulations 2007. [4] FCA, 2013b. [5] Joint Money Laundering Steering Group, 2014.

It is up to individual countries how they implement the international Financial Action Task Force (FATF) recommendations. For the UK and other Member States, the same is true of European Directives that deal with AML/CFT. This means that a Member State can give its regulators the flexibility to take a risk-based approach to individual firms when it comes to monitoring compliance with AML/CFT requirements. In the UK, the risk-based approach is embedded in the Money Laundering Regulations 2007 (Regulation 20). The FCA Handbook (FCA, 2014a) also requires firms to take a risk-based approach to all their financial crime obligations. The aim is to make sure that firms address risk in a reasonable and proportionate way (Gadd and Gapes, 2015)¹⁴ so that access to financial services is not unnecessarily denied.

Within this high-level framework, the FCA is responsible for supervising banks (and some other regulated firms) for their compliance with the Money Laundering Regulations (FCA, 2015g) and overseeing the extent to which they comply with the FCA Handbook obligations on anti-money laundering, as set out in the Senior Management Arrangements, Systems and Controls (SYSC 6.3; FCA 2013b). HM Revenue & Customs regulates some other types of money business, such as remittance services, cheque-cashing services and pawnbrokers (GOV.UK, 2014).

An important part of this compliance landscape is guidance issued by the UK's Joint Money Laundering Steering Group (JMLSG) on how firms should set up and operate their systems (JMLSG, 2014).

¹⁴ In contrast, under a rule-based approach to risk, legislation, law enforcement or regulators determine what banks should be doing, and then monitor their actions.

The JMLSG guidance *'provides a sound basis for firms to meet their legislative and regulatory obligations when tailored by firms to their particular business risk profile.'*

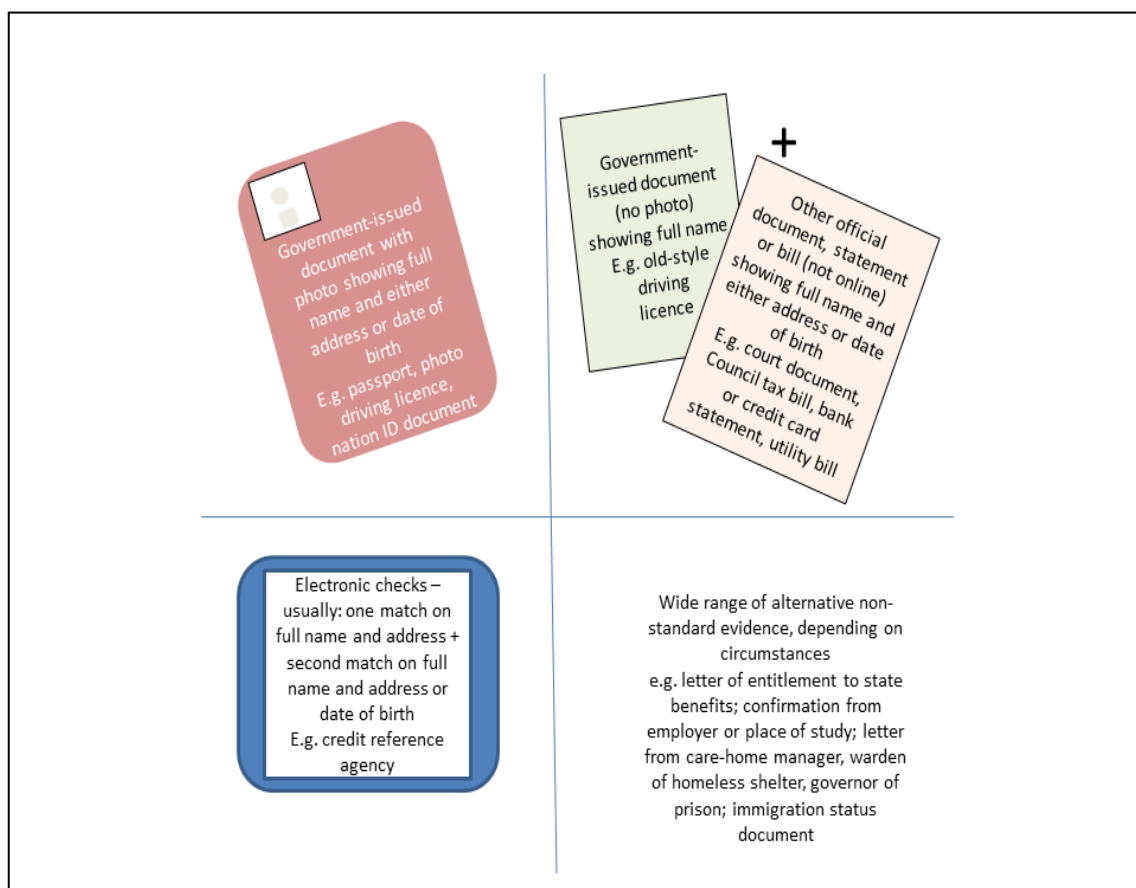
(Source: JMLSG, no date)

While the JMLSG guidance does not have the status of regulation, it is approved by Treasury Ministers. This means that compliance with the guidance has to be taken into account by the courts and the FCA when they are considering whether individuals or firms have breached AML/CFT requirements.

5.2.1 Know Your Customer

Under the Money Laundering Regulations 2007, before a bank can open an account for a customer, it must check and verify the identity of that customer. Sometimes called the 'Know Your Customer' (KYC) rule. This entails gathering and verifying evidence about the customer's name and current address or date of birth, and possibly other details as well.

The JMLSG guidance makes clear that the type and amount of evidence that is required depends on the risk involved and the quality of the evidence. Some customers, products or ways of doing business (for example, by internet or post rather than face-to-face) pose higher money laundering risks than others. Documents issued by the Government are considered to be the highest quality evidence, but many other types of evidence may also be acceptable, as summarised in Figure 5.2. The guidance stipulates that, in appropriate circumstances, *'written assurances from persons or organisations that have dealt with the customer for some time'* can be used by firms to satisfy anti-money laundering requirements.

Figure 5.2: Standard and non-standard evidence that may be accepted when opening a UK bank account

(Source: Authors' representation of Joint Money Laundering Steering Group (2014) *Guidance*, Part I paragraphs 5.3.63, 5.3.69 and Part II Annex 1-I)

Both the JMLSG Guidance and the FCA Handbook guidance make it clear that banks and other firms should have measures in place to deal with consumers who lack standard evidence for identification, in order to prevent unnecessary access problems. The FCA Handbook, for example, talks about firms having '*appropriate measures to ensure that procedures for identification of new customers do not unreasonably deny access to its services to potential customers who cannot reasonably be expected to produce detailed evidence of identity.*' (SYSC 6.3.7G and SYSC 3.3.6G(5); FCA, 2014a, emphasis added).

The evidence that banks and other firms require can be paper documents, electronic checks or a mixture of both. Electronic checks are typically made through a credit reference agency. If the check is simply to verify identity for anti-money laundering purposes, it is recorded in the customer's credit file but does not leave the same kind of search 'footprint' as a check for creditworthiness and should not affect the credit standing of the consumer. A bank requires a customer's prior permission to make a credit-related search but not for a money laundering-related search (JMLSG, 2014; Part I, para 5.3.34).

Having accepted a customer, banks are required to monitor the way the account is used and report any suspicious transactions to the authorities (JMLSG, 2014; Part I, para 5.1.9).

5.3 Issues

Without question, some consumers are denied access to bank accounts and financial services for valid reasons. These cases aside, the scale of access problems related to compliance with crime prevention measures is difficult to quantify. As noted earlier, an estimated 0.75 million individuals might like a bank account but cannot currently get one. There is scant data on the number of people who are refused a bank account and none about the number who are put off applying because of the AML/CFT requirements. Citizens Advice reports that in England and Wales it deals with around 4,000 cases a year concerning opening of bank accounts or Post Office Card Accounts (Citizens Advice, 2015a), but it is not known how many relate to AML/CFT issues.

There are two main types of access problems that consumers face because of the way banks interpret and implement crime prevention measures:

- difficulties proving identity, and
- banks' risk appetite.

In reality, these two problems may overlap and either of them could be used by banks to justify turning away low-value, low-risk customers. From the consumer's perspective, trying to negotiate the identity requirements of banks, which differ between banks and sometimes between bank branches depending on the member of staff a consumer deals with, brings them up against a 'maze' of bureaucracy and processes which are not always consistently applied (Rowe et al, 2016; Ralph, 2016a; Edmonds, 2015b).

5.3.1 Difficulties proving identity

While the issue is complex, there are consumers who cannot open a bank account because they do not have any of the standard identity documents that banks want (such as a driving licence, a passport, or a household bill with their name on it), but who have alternative non-standard ways of proving their identity and address. A wide range of consumers can be affected, as the examples later on show. However, some groups of consumers are more likely to experience difficulties proving their identity because of their circumstances (Box 5.1).

Box 5.1: Who experiences difficulties proving their identity and/or their address?

Evidence shows that some groups of people are more likely to experience difficulties proving their identity and/or their address in order to take out a bank account, including:

- low-income households, especially those in rented accommodation and/or on benefits;
- individuals unable to manage their own affairs because of legal, mental or physical problems;
- individuals dependent on care from others;
- students, particularly from overseas;
- discharged prisoners;
- migrant workers;
- homeless people; and
- refugees and asylum seekers.

(Sources: Citizens Advice, 2015a; JMLSG, 2014, Part I, para 5.3.88; Doyle, 2014; Unlock, 2014; Financial Inclusion Taskforce, 2010; Citizens Advice, 2006)

Identify verification can also be a problem for transgender people¹⁵. For example, in Ireland, Allied Irish Bank was found to have discriminated against a transgender woman because it refused to alter the name on her bank account after she had legally changed it. The bank argued unsuccessfully that a person who changed their gender also changed their identity and must close their existing accounts and open new ones (European Equality Law Network, 2013). In the UK, transgender people can change their passport and driving licence early on in their transition from one gender to another; but not all transgender people choose to obtain a Gender Recognition Certificate and change their birth certificate. The Government Equalities Office has published good practice guidance for service providers, which includes accepting a range of ID other than a birth certificate (Government Equalities Office/Gendered Intelligence, 2015).

To prove identity based on documents, the JMLSG guidance permits banks to rely on a single Government-issued document which includes the customer's full name and photograph and either their residential address or their date of birth (JMLSG, 2014; Part 1, 5.3.63). It also allows for a very wide range of alternative evidence (as shown in Figure 5.2).

In practice, banks normally require consumers to produce separate documents to prove identity (i.e. that they are who they claim to be) and address. And their policies are often much more prescriptive in terms of the evidence they will accept than the guidance allows for (Unlock, 2014; Citizens Advice, 2006).

In addition, banks sometimes automatically combine AML/CFT checks with checks for other purposes, such as creditworthiness or fraud screening. This can result in some customers being turned down because they have little or no information in their credit file, even though alternative evidence would satisfy the AML/CFT requirements (Citizens Advice, 2006). If consumers are turned down for a standard current account because of their credit history, they may instead be able to take out a basic bank account that has no credit facility (Treasury Select Committee, 2015a) provided they know about this option or bank staff tell them about it.

¹⁵ A transgender person is someone who feels that the sex they were assigned at birth does not match or sit easily with their sense of their own gender (Government Equalities Office/Gendered Intelligence, 2015).

5.3.1.1 Consumers who do not have standard documents to prove identity

The UK does not have a mandatory national ID card. The standard documents used by banks to prove identity are a passport or driving licence. Not everyone owns these documents and getting them costs money (Box 5.2), putting them out of reach of some consumers. For those consumers who do not intend to use the documents for any other purpose, the cost may seem excessive or difficult to justify.

Box 5.2: Ownership of standard documents to prove identity

A passport or driving licence are the typical standard documents used by banks to verify identity. According to the 2011 Census, 17 per cent (9.5 million) of usual residents in England and Wales did not have a passport (ONS, 2012). The current cost of a standard adult passport is £72.50.

Lucy lives in rural Wales, about a 10 minute drive from the nearest village. There is a bank branch in the village, but it's not Lucy's provider, and is only open two mornings a week. As Lucy has severe osteoporosis she finds it difficult to get about in the larger town where her nearest bank branch is located, even if she is able to get a lift from a family member. Recently Lucy tried to open a new current account that she would be able to access through a local shop, meaning longer opening hours and the convenience of the nearest village. In her 70s, and having never driven or travelled abroad, she hasn't got either a passport or a driving licence and so was unable to complete the identification verification procedure.

"It's ridiculous that I can't get a new account, just because I don't have photo ID. I haven't been abroad and I don't plan on going, so why should I have to buy a passport?" (Consumer interview, Wales; Rowe et al, 2016: 47).

In England in 2014, 73 per cent of residents held a driving licence. Men are more likely to have a licence than women (80 per cent compared with 67 per of women) and licence holding increases with age (Department for Transport, 2015).

5.3.1.2 Non-standard documents are not accepted by banks as proof of identity

The JMLSG guidance sets out a wide range of acceptable alternatives in cases where consumers do not have standard documents to prove their identity. In reality, because each bank has the discretion to interpret the guidance for itself, each takes a slightly different approach to the documents it will accept and some are more restrictive than others (Financial Inclusion Taskforce, 2010). This results in uncertainty for customers, and sometimes also for bank staff, as to what documents they need and which banks will accept them (Unlock, 2014; Financial Inclusion Taskforce, 2010; Citizens Advice, 2006). This 'fog' of uncertainty is exacerbated if consumers receive seemingly conflicting information from different banks, or even from different staff at the same bank.

Biometric residence permits (BRPs) are a good example. Issued to foreign nationals from outside the European Economic Area who successfully apply to stay in the UK, the biometric residence permit holds the individual's name, date and place of birth, facial image and fingerprints. The Guidance Notes produced by the Home Office state that, among other things, the permit can be used by successful applicants *"as a form of identification (for example, if they wish to open a bank account in the United Kingdom"* (Home Office, 2013).

For refugees in the UK, the BRP is often the main identity document they have. Research finds that some banks do not accept BRPs, however, leaving refugees unable to open a bank account or having to pay for a standard form of identification that a bank will accept (Doyle, 2014). It is possible that declining applications from refugees (and other consumers who lack standard documents) is as much about a bank's risk appetite as its compliance with AML/CFT requirements. We consider banks' risk appetite in section 5.3.2.

"The Job Centre was going to pay me the money, but, I didn't have a bank account... [The Bank] told me that they must have provisional drivers' licence. Maybe it helps for having a bank account. So I paid £50 and that time it was a lot of money for me because I didn't receive any money, but, I borrowed from my friends and I got my provisional licence. After that...they opened the bank account for me. It was really, really, difficult...they said that this [Biometric Residence] permit is some kind of ID for us, but, no place on earth knew that. They look at it and go 'wow what's that?' they didn't know." (Interview with Nahal, a successful asylum seeker; Doyle, 2014: 16).

The Proof of Age Standards Scheme (PASS) is the UK's national proof of age accreditation scheme, endorsed by the Home Office, the Association of Chief Police Officers, the Security Industry Authority and the Trading Standards Institute. The main purpose of PASS is to prevent under-18s accessing age-restricted premises and products (such as alcohol). Any card that carries the PASS hologram has been issued by a provider who has been through an application and accreditation process which examines the procedures they use to check and verify identity. The possession of a PASS accredited card demonstrates that an individual's age and personal details have been verified by the card issuer (PASS, 2015).

The Young Scot National Entitlement Card (NEC) is available free of charge to everyone aged 11-26 living in Scotland, and over 630,000 young people have one. Every Young Scot NEC has the PASS hologram, which makes it as credible as a driving licence or passport in Scottish law for proving age. This makes it particularly valuable for vulnerable young people (such as care leavers) who may not have any other forms of identification. In 2006, the Committee of Scottish Clearing Banks and JMLSG approved Young Scot cards with the PASS hologram as an acceptable form of identification to open a basic bank account (FCA, 2016d). There is evidence about a lack of consistency across and within banks when it comes to accepting the Young Scot NEC, however, as Box 5.3 shows.

Box 5.3: Problems faced by young people in Scotland who want to open a basic bank account using a Young Scot National Entitlement Card

Young Scot has received feedback from young people and professionals that:

- Some banks do not accept the Young Scot NEC as proof of identification to open a basic bank account (even though it was approved by the Committee of Scottish Clearing Banks and JMLSG in 2006).
- Some banks have a policy to accept the Young Scot NEC as proof of identification, but this policy is not applied consistently across all branches.
- Some banks and branches apply the policy differently, for example limiting its use to young people aged under 18 or under 21, or requesting an additional form of identification.

(Source: FCA, 2016d)

In cases where banks do accept non-standard documents, this can be at a cost that the consumer may not be able to afford.

A CAB in the South East of England saw a 25 year old man who was homeless. He stayed at different friends' homes, so has no fixed address. He had just started a temporary job with an agency and his salary had to be paid into a bank account. The client was told that the bank would accept a letter from his GP, but such letters usually cost £25, which he didn't have. He had no friends or family who he could use as a long term postal address. The bureau ended up paying £25 out of their charitable fund to pay for the GP letter. (Citizens Advice, 2015a: 10).

5.3.1.3 Consumers who do not have standard documents to prove address

Consumers who do not (yet) have a permanent UK address can struggle to provide a bank with proof of their address in order to open an account. This applies equally to people newly arrived in the UK for work or study as well as UK citizens who have no fixed address or who are not named on a tenancy agreement or household bill. It can result in a very frustrating 'chicken-and-egg' situation for the consumer.

"We were just going round in circles a bit, because I really needed a UK bank account so that I could get set up to pay the deposit quickly on all of these flats that kept going so fast, but they wouldn't let me have an account without post to the flat. But I haven't got a flat yet! Eventually the university wrote a standard letter to one bank, and so we all just went there quick to get accounts." (Consumer interview, London; Rowe et al, 2016: 21)

"I went into my bank to ask if I could get a proper bank account, because I wanted to get a mobile phone contract and they told me [in the shop] that I couldn't do it without a proper bank account. But then the bank said I couldn't get a proper bank account without proof of address. People don't listen, especially if you're living in a caravan and then how could you get proof of address? When you tell them you're a traveller they look at you like you're shit." (Consumer interview, Brighton; Rowe et al, 2016: 22)

5.3.1.4 Lack of help to sort out identity problems

A risk-based approach is intended to offer banks flexibility when it comes to complying with AML/CTF requirements, and so avoid consumers being unnecessarily excluded from banking. As we saw earlier, this can lead to uncertainty for customers and bank staff about which documents are acceptable.

In the qualitative research on Access commissioned by the FCA (Rowe et al, 2016), the inability of frontline bank staff to always answer questions satisfactorily or signpost consumers to another source of help caused additional frustration for consumers desperate to open an account so they could accept work, receive benefits or move into accommodation. Notably, this poor experience was raised by different types of consumers – those with little money, and those with a great deal. One respondent coming to work in the UK from the European Union eventually opened a bank account after he visited seven branches of the same high street bank until he found someone who was willing to look in more detail at the documents he was able to provide.

"[The customer service assistant] just said 'Well, I see your point. I'm not sure what the answer is, it's a bit of a catch 22 isn't it!' which wasn't very helpful." (Consumer interview, Manchester; Rowe et al, 2016: 23)

"Nobody was willing to look or engage their brain. In the end it turned out to be OK. They gave me a really basic account that you could only withdraw limited cash from. I just needed someone to look at the problem and say 'you know, this is probably something we can do something about'." (Consumer interview, London; Rowe et al, 2016: 22)

5.3.1.5 Consequences of being unable to open a bank account

As the evidence shows, the consequences of not having a bank account in modern-day UK can be significant. A bank account is generally a prerequisite for people wanting to rent accommodation and to take out a mobile phone contract. For people moving into work, there is often no real alternative to a bank account in their own name for receiving earned income.

A CAB in the North West of England saw a man who had recently started a new job. His employer will only pay his wages into a bank account that is in the client's name. The client however, is struggling to open a bank account as he does not have two separate forms of ID to prove his identity and address. He lives with relatives at the moment so does not have any bills in his name, and he does not have a passport or driver's licence. The client has tried with two high street banks and neither will accept his birth certificate as a form of ID as he is not 18 or under. (Citizens Advice, 2015a: 11).

Josh and his wife came to the UK at the start of 2015 when his wife's employer transferred her to their London office. When they arrived, they brought around £4,000 in cash with them to live on while they were setting up bank accounts and waiting for their first pay cheques. Josh and his wife hid their money in among their clothes to keep it safe. When Josh and his wife tried to open an account they were turned down due to lack of proof of address because they were staying in a temporary rental apartment. Different branches of the firm that they were dealing with gave them different information about how to obtain proof of address and what was acceptable. Several weeks later, the firm finally let Josh's wife open an account using her employment contract as a form of ID, during this time they lived on the cash they had hidden. It took a further 6 months for them to open a joint account and for Josh to get a debit card of his own. (Consumer interview, Guildford; Rowe et al, 2016: 29)

For unbanked people eligible for benefits or Universal Credit, the Post Office Card Account (POCA) can be used to receive and withdraw payments made by Department for Work and Pensions. The POCA has no other functionality, however, so it cannot be used to receive other sorts of income (such as wages) or to set up direct debits or standing orders. Delays setting up a POCA can leave people in hardship because they have no way to access the money they are entitled to (Doyle, 2014).

5.3.2 Banks' risk appetite

Some consumers pose little risk but do not have the standard documents banks want. Others have the documents required by banks to authenticate their identity but the bank either closes their account or refuses to open one because of a perceived risk of money laundering or financing terror. This can result in an account being unexpectedly frozen or closed, often without explanation (Citizens Advice, 2015a). There are concerns that, if banks over-estimate risk, this creates a financial barrier for poorer consumers due to over-compliance (Gadd and Gapes, 2015).

In September 2013 a CAB in the East of England saw an Iranian man who had lived in the UK for nine years and wanted to apply for UK citizenship. He had completed the application form, including his bank account details so that he could pay the necessary fee to the UK Borders Agency. He had posted this with his passport to the Borders Authority in Croydon. He sought advice as the bank had told him that they had closed his account. They did not give a reason that the client could understand. The client was extremely worried about his application for citizenship now that his bank account was closed. (Citizens Advice, 2015a: 11).

Kate (an occupational therapist) and her husband (a teacher) found the perfect home. They had been searching for months because Kate has a disability and they needed to find a bungalow close to their family. Kate had recently inherited money and her husband also had an inheritance to use as a deposit on their new property. They had an Agreement in Principle for a mortgage when they placed their offer, however a few weeks later the mortgage was withdrawn as the firm felt they could not prove where the inheritance money came from. Kate and her husband asked the firm to speak directly with their solicitor to work out what documents were needed to prove where the money came from but the firm refused and withdrew the offer. Kate and her husband were at risk of losing their new home and applying to a different mortgage lender would take too long. Eventually, Kate's parents offered to lend her the money instead. (Consumer interview, Bournemouth; Rowe et al, 2016: 29)

A bank's risk appetite determines the accounts it decides to decline or close. In the wake of concerns about global terrorism and banks' compliance with AML/CFT, banks' risk appetites are generally lower than in the past. This affects businesses and organisations that are bank customers as much as individual consumers. For example, providers of alternative payment services, such as remittance firms, are recognised as potentially high risk because they deal with a lot of cash and transactions with individuals and businesses globally¹⁶. In recent years, some banks have implemented bulk closures of accounts for businesses in the payment services sector. Nascent financial technology (fintech) companies have also been affected by account closures (FCA, 2015h). These actions may have knock-on effects for consumers if access is reduced or costs increase.

5.4 Through a consumer's eyes: what might good look like?

There is clearly a fine balance to be struck between preventing money laundering and financing terrorism in the interests of national security, and avoiding the exclusion of individuals and organisations from essential banking services. The risk-based approach embedded in the anti-money laundering regulations aims to ensure that access is not unnecessarily denied by requiring banks to meet their obligations in a proportionate way, and individually assessing consumers rather than using a one-size-fits-all approach.

¹⁶ Most of these businesses are categorised as 'money service businesses' regulated by HM Revenue & Customs.

The evidence suggests a number of ways of improving the situation for consumers:

- Consumers get consistent information and help from banks to prove their identity in order to open a bank account.
- Banks accept non-standard documents that appear on their published lists, across all branches.
- Frontline staff across the bank are clear about the non-standard documents their bank will accept.
- Frontline staff across the bank offer clear and consistent guidance to consumers about the range of standard and non-standard documents the bank will accept, and how consumers can go about obtaining those documents.
- Wherever possible, banks provide consumers with clear information about the reasons for a bank account application being declined, or why an account has been closed.
- Frontline staff routinely refer 'up the line' for advice, for example, to the bank's money laundering reporting officer or other person who can make informed decisions in non-standard cases (Edmonds, 2015b).
- If frontline staff cannot help, they signpost consumers to a suitable external source of independent help or advice.

5.5 What is happening so far?

There is growing interest in the application of new technology to help overcome some of the access problems that consumers face verifying their identity, for example through the creation of digital identities (Lindley, 2015; Ralph, 2016a) and digital passports. Hi-tech identification and verification processes can also potentially cut costs for firms in an area where they may otherwise be unwilling to invest money to serve what they regard as low-value consumers. At a European level, e-identification is seen as one possible way to promote a cross-border market in retail financial services (Ralph, 2016a; European Commission, 2015b).

These solutions can depend on consumers having internet access and/or a smartphone. This means they may not be suitable for the significant minorities of consumers (described in Chapter 4) who are not online or do not want to manage their personal finances online. Table 5.1 summarises these examples of what is happening so far to address access problems of proving identity and banks' de-risking.

5.5.1 Consumers who do not have standard documents to prove identity

Internationally, the Financial Action Task Force intends to publish best practice guidance in 2016 to promote a better balance between AML/CFT compliance and financial inclusion (Financial Action Task Force, 2015).

In the UK, Unlock (a national charity for people with convictions) found that many people leaving prison were unable to take employment opportunities because they did not have a basic bank account. It worked with the prison sector and the banking industry to provide prisoners with access to bank accounts prior to their release. This included developing and promoting a standard Personal Identification document which is issued by the National Offender Management Service (NOMS). This document can be used as the only form of identification needed by prisoners to open a basic account. It overcomes the problem that most people in prison do not have access to the sorts of standard documents that a bank requires to open an account (Unlock, 2014; Box 5.4).

Box 5.4: Unlocking Banking

Over the period 2005-2014, the charity Unlock worked with the prison sector and the banking industry to improve access to basic banking for pre-release prisoners. Among other things, it developed and promoted a standard Personal Identification document.

Establishing a standard form of identification has been a cornerstone to this work. The ability for prisoners to provide a document that all of the banks accept has overcome many of the original hurdles. (Unlock, 2014: 24).

As a result of Unlock's campaign:

- Nearly 6,000 prisoners have opened basic bank accounts.
- The five major current account providers have all been actively involved (Barclays, Halifax, HSBC, Santander and RBS) as well as a significant contribution from Co-operative.
- Links have been established between high-street banks and 114 prisons (Unlock, 2014).

5.5.1.1 Identity federation

For consumers with documents that satisfy identity requirements, other initiatives offer 'identity federation': the idea that consumers can 'verify once, use many times' (Lindley, 2015). Once a consumer's identity has been verified by a trusted source (which could be a credit reference agency or another approved body), the information is stored digitally and securely so that it can be accessed by banks or other institutions whenever they need to check a consumer's identity.

The GOV.UK Verify scheme, for example, allows users to create a secure digital identity for accessing online public services like filing a tax return or applying for Universal Credit (Cabinet Office/Government Digital Service, 2016). Digital identity services and identity federation for the private sector are also being explored, including their application in financial services (Lindley, 2015). An industry initiative led by the Tax Incentivised Savings Association (TISA) is looking to create a financial services digital passport for savings and investments (Salmon, 2015).

In Norway, a single organisation supplies all Norwegian banks with an electronic ID, called BankID which is used for authentication and electronic signatures. It meets all national e-identification requirements for the highest security level, and is compliant with EU regulation and requirements. Most people in Norway (80 per cent) have a BankID and use it on average two times a week. A consumer can use a BankID issued by one bank to open or login to an account with another bank, and to access public services. (Ralph, 2016a).

5.5.1.2 Blockchain (distributed ledger technology)

As the examples above illustrate, identity verification has traditionally centred on paper documents and electronic checks that rely on data ultimately held in digital form on registers operated by trusted organisations, like the UK Passport Authority, the Driver and Vehicle Licensing Authority or credit reference agencies. This centralised approach to recording and consulting digital information is being challenged by a new 'distributed ledger' model.

The distributed ledger model (also called ‘blockchain’; see Box 5.5) originated with digital currencies, such as Bitcoin, but can potentially be applied to proof of identity (Law and Ebrahimi, 2015; Buntinx, 2015). For example, ShoCard (a financial technology start-up firm in the US) uses blockchain technology to create a digital identity card that can be used through a smartphone app (ShoCard, 2015). The creators of ShoCard claim that it is ‘*as easy to use as a driver’s license but it’s so secure that a bank can rely on it*’ (Ebrahimi, quoted in Suson, 2015). The same technology is behind efforts to offer financially excluded people around the world a ‘self-sovereign’ digital identity, which would give individuals control over what information about them gets shared, with whom and for what purpose (DigiFin, no date).

Depending on the information required to produce such a digital identity, and assuming that they are widely accepted by banks and other firms, these initiatives may in time help consumers overcome problems with standard and non-standard documents.

Box 5.5: What is blockchain?

Blockchain is a network of computers, all of which must approve that a transaction has taken place before it is recorded, in a ‘chain’ of computer code. The transaction details are recorded on a public ledger that anyone on the network can see. There is no central authority or custodian of information. Instead, the information is transparently held in a shared database, without a single body acting as middleman (Wild et al, 2015). If someone wants to change the information, there has to be consensus among all these parties to make the change. Both the nature and the order of changes are recorded and every subsequent change includes the history of all previous changes. This makes it very difficult for anyone to tamper with information that has already been agreed (Ali et al, 2014).

While blockchain is best known in relation to payments, it could be used to provide a record of identity or to store validated ‘know your customer’ information (Wild et al 2015). Blockchain is seen by a growing number of financial services firms as a way to overhaul outdated back office systems, speed processes and reduce costs. Firms are exploring the creation of private blockchains, where access is restricted and the network is secured by the institutions who have permission to use it (Shubber, 2015). The Bank of England considers that ‘*it may be possible in the future – in theory, at least - for the existing infrastructure of the financial system to be gradually replaced by a variety of distributed systems...*’ (Ali et al, 2014: 10).

5.5.2 Lack of help to sort out identity problems

Based on feedback they have received from young people and professionals about banks’ inconsistent approach to the Young Scot NEC as a form of identification to open a basic bank account (see Box 5.3), Young Scot aims to work with banks and others to improve the situation. It is also seeking support to get all PASS hologrammed cards accepted as proof of identity to open basic bank accounts across the UK (FCA, 2016d).

Also in Scotland, RBS has worked with the Scottish Government and the Convention of Scottish Local Authorities (COSLA) to help make sure that refugees newly arrived in Scotland from Syria have the right documents to meet the bank’s requirements for proof of identity and proof of address. Consolidated and updated guidance was sent to frontline and branch staff which highlighted the most likely forms of ID/address that Syrian refugees would have: a passport or Biometric Residence Permit as proof of identity and a current local authority or housing association tenancy agreement or a local authority letter of introduction as proof of address (FCA, 2016c).

5.5.3 Consequences of being unable to open a bank account

Basic bank accounts were introduced in the UK in 2003 to tackle financial exclusion by extending access to banking. These accounts allow deposits, withdrawals at branches and cash machines, standing orders and direct debits, but do not have any chequing or overdraft facilities. In the past, banks have been criticised for failing to let customers know about basic bank accounts, limiting cash machine access and charging for failed direct debits. Despite these issues, basic bank accounts have generally been hailed as a success (Consumer Focus, 2012). Currently around nine million customers have basic bank accounts (GOV.UK, 2015b).

In December 2014, the UK Government reached a new agreement on basic bank accounts with nine major UK banking groups that together cover over 90 per cent of the personal current account market (HM Treasury and Leadsom, 2014a). Under the agreement, which came into effect in January 2016, these banks and building societies commit to provide a basic bank account to any customer who is ineligible for a full current account, including people who need to open a second account in order to deal with debt problems (HM Treasury and Leadsom, 2014b). An important change is that new basic bank accounts provided under the agreement make no charges for unpaid payments, including where an unpaid payment makes the account overdrawn.

A potentially worrying feature of the agreement is that, since the new basic bank accounts will be loss-making for the banks, they may only offer them to particular consumers (e.g. vulnerable consumers), even though the agreement states the accounts are available to all eligible consumers. If this happens, some customers may find they are denied this type of account but are unable to fulfil the more onerous identity requirements for a full current account (Treasury Select Committee, 2015b).

Currently, banks in the UK provide basic bank accounts under a voluntary agreement. From 18 September 2016, the implementation of the Payments Account Directive will put basic bank accounts onto a statutory footing. The Directive means that basic accounts will be available to any legal resident in the EU, and consumers cannot be turned down for a basic account because they do not live in the UK, provided they satisfy AML/CFT checks (GOV.UK, 2015b).

As an alternative to taking out an account with a bank, around 20 credit unions in the UK offer a Credit Union Current Account (ABCUL, no date). As credit unions often know their customers personally, this may make it easier to verify an individual's identity in order to open an account. However, the Credit Union Current Account service will cease to operate from August 2016 and all accounts will be closed (Lewisham and Bromley Credit Union, no date). A new banking platform for credit unions is underway as one element of the Credit Union Expansion Project (ACBUL, 2015).

5.5.4 Banks' risk appetite

The FCA has commissioned research into the 'de-risking' phenomenon among UK banks (Gruppetta, 2015). It has also produced a statement on its website in relation to de-risking and money laundering (FCA, 2016j).

Table 5.1: Examples of what is happening so far

What's being done by:					
	Government	Regulators	Firms	Consumers	Others
Consumers do not have standard documents to prove identity	Government Equalities Office good practice guidance on providing services for transgender customers	FATF to publish good practice guidance about AML/CFT compliance	Potential use of blockchain to verify identity and create secure digital identity		Unlock (charity) led development of a standard Personal Identification document for pre-release prisoners
Identity federation (but consumers still need to satisfy initial AML/CFT checks)	GOV.UK Verify scheme (for public services)		TISA's Digital Passport initiative for savings and investments		Open Identity Exchange working with private sector on digital identities and identity federation (Lindley, 2015; Ralph, 2016a)
Lack of help to sort out identity problems	RBS/NatWest working with Scottish Government and COSLA to support Syrian refugees in Scotland to open bank accounts		RBS/NatWest working with Scottish Government and COSLA to support Syrian refugees in Scotland to open bank accounts		Young Scot (charity) working to resolve banks' inconsistent approach to Young Scot NEC
Consequences of not being able to open a bank account	HM Treasury brokered voluntary agreement with nine banking groups to offer new basic bank account Implementation of Payment Accounts Directive	Implementation of Payment Accounts Directive	HM Treasury brokered voluntary agreement with nine banking groups to offer new basic bank account		Around 20 credit unions offer Credit Union Current Account (but account will be withdrawn in August 2016). A new credit union banking platform is being developed.
Banks' risk appetite		FCA research on de-risking			

6 Automated processes

'The computer says "no"' is not just a comedy catch-phrase. It is the experience of many consumers who get caught in the 'maze' of impersonal, automated processes. The Credit market provides a prime example and further consumer frustration is caused by the 'fog' of confusing relationships between the main players: lenders and credit reference agencies. Many consumers do not understand how credit scores work; they often mistakenly think that credit reference agencies make lending decisions and those decisions are based purely on their credit file or score.

"What is your credit score? Will you tell me? Is it like they look at your records with them and then ask the police about your criminal record?" (Consumer interview, Manchester; Rowe et al, 2016: 36)

Automated credit processes are a widely used part of the process which supports responsible lending and borrowing. They inevitably mean that some consumers will justifiably be denied credit that they would find difficult or impossible to manage. However, for others, these processes can shut them out of *mainstream* credit. As a result, these consumers pay extra not just to borrow, but for energy, phones, household goods and anything else that involves an element of credit in the contract. Groups most likely to be affected include young people who have yet to build a credit file, members of the Armed Forces and others who have worked abroad for several years, the newly separated, divorced or widowed without financial products or household bills in their name because their partner handled the finances, low-income households that opt to manage their finances mainly in cash, in fact anyone whose credit history is 'thin'. As previous research has noted: *'Automated credit checks within some firms fail to take into account the reasons behind a lack of transaction history or absence from the electoral roll'* (Coppack et al, 2015: 49).

"I went to the bank and asked for an overdraft and they said no because I had poor credit. I didn't get why I had poor credit and they didn't give me a reason. I was living with my parents at the time and working for my dad and I didn't have any debts or anything. A few weeks later, I got a letter from a company saying that they could give me a credit card and help me build my credit score so I took a card with them even though the interest was really high." (Consumer interview, Glasgow; Rowe et al, 2016: 35)

6.1 Context

Prior to the 1980s, UK financial service providers usually built personal relationships with typically local customers. Financial deregulation – the process of lifting statutory restrictions and opening up financial markets to competition which gathered pace from the mid-1980s onwards¹⁷ – spurred the growth of mass markets. These new, nationwide markets needed faster, consistent procedures for dealing with new applications. Enabled by innovation in computing and subsequently the internet, automated processes have been the answer. This is particularly evident in the markets for credit and for other products that embed access to credit or some element of borrowing, such as full-service bank current accounts, paying insurance premiums by instalment and paying utility bills in arrears.

¹⁷ For example, with the Building Societies Act 1986 and Banking Act 1987.

6.1.1 Automation and mass markets

To run a business profitably and meet requirements to lend responsibly a lender has to assess and manage the risk that some of its customers may fail to repay what they borrow. Traditionally, this was done by a personalised assessment of 'character, capacity and collateral' ('the three Cs') (OFT, 1992). In today's mass markets, idiosyncratic lending decisions have been replaced, at least partly, by computer algorithms that use standardised sets of information, weighted according to their power in predicting consumers' credit behaviour – a system called credit scoring.

6.1.2 Credit scoring and credit reference agencies

Credit scoring was first used in the USA as early as the 1950s but took off in 1989 with the introduction of 'FICO' scores. These are credit scores sold to lenders by the Fair Isaac Corporation (FICO), the first credit reference agency called a 'bureau' in the USA (Cullerton, 2013). Under UK law, the *'furnishing of persons with information relevant to the financial standing of individuals or relevant recipients of credit...if the information has been collected for that purpose'*, as a firm's primary business, is a regulated activity (FSMA 2000 (Regulated Activities) Order 2001, article 89B). In the UK, there are three major credit reference agencies that provide information about personal borrowers: Experian, Equifax and CallCredit.

Credit scoring relies on algorithms derived from the statistical analysis of many bits of information across large samples of borrowers. These algorithms – often called 'scorecards' – generate a credit score for any new applicant once their data has been fed in. Many large lenders create their own customised scorecards (Edmonds, 2014c) and may have several different ones tailored to different types of credit. Other lenders use scorecards developed by credit reference agencies.

The information which financial services use to make a credit decision may come from a credit reference agency, an application form, documentary evidence (for example, about income) and possibly references. Some or all of the information may be considered separately rather than built into the scorecard. In addition, if a credit reference agency is used, there may be something in the credit file (for example, a disputed transaction) that may need to be considered manually rather than being handled as part of a scorecard.

The lender decides on cut-off scores that may determine whether or not it grants credit and what interest rate it will charge. However, the credit score is unlikely to be the only information considered as lenders may have overriding policy rules, such as declining to lend to any applicants who have a history of defaults.

6.1.3 Information held by credit reference agencies

Traditionally, the types of information held by a credit reference agency are sourced in three ways (Information Commissioner's Office (ICO), 2015a):

- **Publicly available information.** This includes name and address from the electoral roll, actions to recover debts, including county court judgments (CCJs), individual voluntary arrangements (IVAs) and bankruptcy.
- **Closed-user groups.** Firms agree to share similar information about their customers' credit performance. This helps to generate information about the total amount borrowed, types of credit held, performance in repaying credit and paying utility bills, including payments on time, missed payments, late payments, defaults, and 'arrangements to pay' (where the borrower has run into difficulties and the lender has agreed to an alternative way to pay off part or all of the credit). Lenders choose whether or not to share this information and will not necessarily share the same information through all three credit reference agencies. The industry has created a forum, the Steering Committee on Reciprocity (SCOR), which has developed a set of principles to guide the way closed-user groups share information.
- **Application activity.** Typically, when an individual applies for credit, their credit file is 'searched'. In practice, this means the lender's computer system gathers information from the credit reference agency computer. Each search leaves a 'footprint' on the file that lenders may take into account. Credit files are searched for other reasons too. This may be simply to check identity for anti-money laundering purposes (see Chapter 5), or where a customer is seeking an indication of eligibility for, or the cost of, credit that falls short of an application. Where consumers are just seeking an indication, they can try asking for a 'quotation search'. Although quotation searches also leave a footprint, they are marked differently from credit applications and should not be taken into account by lenders when making a lending decision.

Most information is erased from an individual's credit file after six years, but electoral roll information stays on it indefinitely and arrangements to pay may stay on file longer depending on the term of the arrangement (ICO, 2015a). Search footprints remain on file for up to two years (Experian, 2015a).

6.1.4 Changing trends

Traditional credit scoring has been criticised for relying on a narrow range of data that may be manipulated by fraudsters and discriminates against people who have non-standard credit experiences (Cullerton, 2013). This has created interest in other source of information, including 'Big Data' available from tracking internet and smartphone usage and other electronically captured behaviour. The types of Big Data being used include (King, 2014):

- **Social media data**, such as Facebook, Twitter, LinkedIn, Google and Yahoo. Factors taken into account might include, for example, number of friends, average credit rating of social connections and key words in profiles.
- **Location and mode of access.** Location may be cross-referenced to information such as number and type of shops, cinemas and other outlets in the area to build a picture of the type of neighbourhood the individual lives in or visits. The type of device being used to make a loan application, the software version being used, whether the user copies and pastes information or makes spelling mistakes may all contribute to the score.
- **Shopping behaviour.** For example, choosing some retailers is associated with reduced creditworthiness, while types of purchases might influence the setting of credit limits.

Most of the firms pioneering these new approaches are technology companies (so-called 'fintech' businesses), such as Lenddo, Kreditech and Big Data Scoring (BDS). They operate mainly in countries where newly emerging 'middle classes' typically lack the type of financial history needed for conventional credit referencing (King, 2014). However, mainstream credit reference agencies and some traditional lenders are also beginning to introduce Big Data into their own scorecards, particularly looking at purchasing history and internet activity (Cullerton, 2013).

Another important initiative in the UK is the inclusion of rental payment information in the credit files of one agency, Experian, through a separate database called The Rental Exchange (Big Issue Invest, 2015). This aims to help social and private tenants who have thin or empty credit files (see below: section 6.5.2, Box 6.3).

As well as considering the breadth of data, lenders and credit reference agencies are interested in improving the predictive quality of existing data. A particular problem is that the original statistical analysis on which a scorecard is based becomes less accurate over time as the customer base drifts and behaviour changes. Resampling to update the scorecard is expensive and takes time. Some lenders are experimenting with adaptive scorecards that use feedback loops to automatically improve the algorithm, for example, as economic conditions change (Nikolaidis et al, 2014).

6.2 Current regulation

Key legislation is contained in the Consumer Credit Act 1974, Data Protection Act 1998 and the Financial Services and Markets Act 2000, implemented and supplemented by detailed Financial Conduct Authority regulation (FCA, 2014f¹⁸). The FCA took over regulating consumer credit from the Office of Fair Trading in April 2014. Consumers have certain key rights in relation to credit reference agencies:

- If they are turned down for credit under regulated agreements (excluding consumer hire agreements and agreements secured on land) because of information in their credit file, the lender (or intermediary) must, subject to exceptions, tell them this and provide contact details for the agency concerned (CCA 1974, s157(A1)).
- If they are turned down for credit under regulated agreements for other reasons or indeed where they are not turned down, consumers are, subject to exceptions, entitled to the details of the credit reference agency used if they make a written request within 28 days after termination of negotiations (CCA 1974, s157 (1) and (2)).
- They have the right to request a copy of their file from a credit reference agency on payment of a £2 fee – this is called a statutory credit report (Data Protection Act 1998, ss7 and 9).
- If a customer believes that the file supplied by the agency contains errors they can ask the agency to delete or amend the faulty data. DPA 1998, s9 and CCA 1974, s159 set out a procedure to resolve the matter if the agency fails to remove the relevant entry.

Under the FCA rules, there is no requirement for lenders to use a credit reference agency when assessing creditworthiness, only that the assessment should be based on '*sufficient information*' including consulting a credit reference agency '*where necessary*' (FCA, 2014f, CONC 5.2.1R(3(b))¹⁹). This leaves it to firms to decide whether other information alone is sufficient. The FCA (2015j, para 4.5) has reported that most lenders do use a credit reference agency.

The Data Protection Act 1998 is overseen by the Information Commissioner's Office (ICO), which also has a duty to promote data-sharing good practices. The Act requires that anyone who controls data must comply with eight high-level principles (DPA 1998, Schedule 1). Particularly relevant to automated credit processes are principles 1, 3, and 4:

1. Personal data shall be processed fairly and lawfully.
3. Personal data shall be adequate, relevant and not excessive in relation to the purpose or purposes for which they are processed.
4. Personal data shall be accurate and, where necessary, kept up to date.

¹⁸ Other parts of the *FCA Handbook* also apply, such as the 'Principles for Business'.

¹⁹ The FCA rule implements Article 8 of the European Consumer Credit Directive 2008/48/EC.

The Data Protection Act makes provision for the consumer to obtain a copy of information held about them, in an intelligible form, and also allows them to request information about the logic behind automated decisions such as lending decisions (Data Protection Act 1998, ss7 and 9). Where a decision has been completely automated, the consumer can ask for other information to be taken into account (Data Protection Act 1998, s12).

The Equality Act 2010 bans discrimination in the provision of services on a wide range of factors: disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex or sexual orientation. Although the Act also identifies age as a 'protected characteristic' there is a specific exemption for financial services, so age may be used as a factor in automated processes, such as credit scoring, and is a key factor in identity verification (see Chapter 5).

Key examples of industry self-regulation are the Steering Committee on Reciprocity (SCOR), mentioned above) and industry-wide agreements, such as the *Guide to lending* (BBA and UKCA, 2015) and *Guide to credit scoring* (BBA, 2007).

6.3 Issues

A previous regulator of consumer credit suggested that an ideal creditworthiness assessment system should result in responsible lending and be fair (by avoiding the use of arbitrary or irrelevant criteria), transparent (as far as compatible with fraud prevention), accurate, flexible and efficient (OFT, 1992). From a consumer perspective, these continue to be worthwhile aims. Automated processes, with the safeguard of manual intervention where appropriate, are arguably more likely to deliver on these qualities than the fragmented, personalised system of lending decisions that prevailed in the pre-automation era.

The number of complaints received by the Financial Ombudsman Service about credit referencing is low, an average of 160 a year over the last three years or just 0.03 per cent of all new complaints (FOS, 2015a). The information commissioner handled 14,268 data protection cases in 2014-15. Of these, where the nature of the case is given, 14 per cent concerned inaccurate data and 12 per cent concerned lenders, though how many concerned credit referencing is unknown (ICO, 2015b). However, as this Occasional Paper has already shown, statistics can be misleading when considering access issues. People who have been unable to take out a product because of access problems do not show up in customer data, they do not necessarily complain and they may have disengaged from the mainstream markets altogether because they anticipate they will have problems.

6.3.1 Lack of consumer understanding

There are various consumer misunderstandings about how credit scoring works; when it applies; the role of credit reference agencies; who makes lending decisions and rights around checking credit files. Among the common myths are that credit reference agencies make lending decisions and individuals only have one credit score (Experian, 2015b).

As discussed earlier in this chapter, lenders make the decision to lend and different lenders assign different scores to the same consumers. Arguably, recent trends may be compounding this confusion. Traditionally, the customers of credit reference agencies were lenders and other businesses, but credit reference agencies now also sell services direct to consumers. While the main purpose of these services is to give consumers continuous access to their credit file data, a common add-on is a credit score calculated using the credit bureau scorecard, together with tips on how to improve the score. While this credit bureau score may give a broad indication of the consumer's creditworthiness, whether or not a particular credit application is successful will still depend on the specific scoring system used by the lender concerned.

"I don't know what my credit score is. Or where it is for that matter! How would I find out? Who tells you?" (Consumer interview, Randalstown; Rowe et al, 2016: 39).

The prominent marketing of credit reference agencies' own credit-report services, typically costing around £15 a month (Moneyfacts, 2016)²⁰, may leave consumers unaware that they can get a statutory report for a one-off payment of just £2, particularly since information about the statutory report is not always easy to find on firms' websites.

The qualitative research on Access commissioned by the FCA (Rowe et al, 2016) shows consumers are not always aware of the range of financial products that have a credit element and so may require a credit check as part of the application process. For example, consumers may think of a bank account as being a way of receiving and making payments. They may be less aware that the ability to overdraw a full-service current account means that it is also a credit product.

"It said: 'We consulted a credit reference agency'. I wasn't asking for any credit, just a current account, and I know my credit is good! So I panicked. Why didn't they want me?" (Consumer interview, London; Rowe et al, 2016: 25).

These diverse areas of confusion suggest the need for more consistent, easy-to-find communication with consumers. While the credit reference agencies produce a wealth of explanatory material, its status may be ambiguous since the agencies are also marketing paid-for services to consumers. The Information Commissioner's Office (2015) produces an independent consumer guide called *Credit Explained* but this may be hard for consumers to find unless they already know about the ICO, or the guide is publicised through popular channels. Meanwhile, ICO guidance for the public on how credit defaults are recorded in credit files is just an endorsement of information from the Steering Committee on Reciprocity (SCOR, 2014) and is located primarily on the SCOR site – a website that few consumers are likely to be familiar with.

6.3.2 Lack of information on refusal

The qualitative research on Access commissioned by the FCA (Rowe et al, 2016) found that the difficulties for consumers turned down for credit are often compounded by a lack of clear explanation about why they have been denied. The Lending Code, which most banks, building societies and credit card providers have signed up to states that: *'If a lender decides not to accept your credit application, you can ask them to explain the main reason for their decision'* (British Bankers Association and UK Cards Association, 2015: 4). However, it is in the nature of credit scoring that many different factors are combined into a single score and it may be impossible to point to a particular 'main reason'. As a result, consumers are likely to be given a generalised explanation that does not necessarily help them to take steps to improve their credit score or identify credit providers more likely to accept their business.

"I just keep trying and trying and trying. Surely someone will give me a credit card eventually!" (Consumer interview, Birmingham; Rowe et al, 2016: 25)

"Credit scoring is a bit of a myth. We'd like to see a lot more information and training to staff to know what they can tell someone about how they can go away and improve their credit score because very often people's circumstances would enable them to access credit but their score stops them." (Expert interview; Rowe et al, 2016: 35)

"When you start getting turned down, it's easy to just assume that everyone is going to turn you down. They [firms] don't give the impression that someone else might be able to help – it's kind of a firm 'no'". (Consumer interview, Birmingham; Rowe et al, 2016: 26)

²⁰ Some agencies also provide a fee-free service, so instead of paying directly, users 'pay' with their personal data by agreeing to receive targeted credit offers. They do not have to take up the offers.

There is a tension between giving consumers more information and commercial interests. The way credit scores are calculated and the cut-off scores a lender uses to decide whether to grant credit and how much to charge determine the profitability of the business. As a result, lenders say that their scorecards and cut-off points are commercially sensitive (Experian, no date) and that disclosure would also increase the risk of fraud (British Bankers Association, 2007). Lenders argue that keeping this information secret also reduces fraud by making it more difficult for applicants to 'game' the system by altering information they provide and manipulate their score. While taking genuine steps to improve a credit score can improve a consumer's financial resilience (along with their ability to borrow), temporary manipulation may simply increase the likelihood of taking on too much debt and running into financial difficulty later on.

"When we were looking for our mortgage we knew it would be a stretch so we just took out cash for little luxuries they might ask about, and my husband stopped gambling online just for the months they wanted statements for." (Consumer interview, Brighton; Rowe et al, 2016: 36)

6.3.3 Thin/empty credit files

Responsible lending and borrowing inevitably mean that some consumers will justifiably be denied credit because they have a poor credit history. However, other consumers are denied credit because there is little or no information in their credit file, even though they might be well able to manage the repayments. For example, in research by Big Issue Invest (2010), one large bank said that it turned down over 90 per cent of applicants who had thin or empty credit files and thin/empty files were a problem for 30 per cent of applicants in rented accommodation, compared with just 10 per cent for homeowners. With 18 per cent of UK households living in social rented accommodation and 19 per cent in private rentals (DWP/ONS, 2015: Table 3a), this means millions of people are potentially affected. The problem can be due to the absence of very basic data such as proof of address from the electoral roll. It is estimated that around 8.5 million people in Britain are eligible to vote but are not on the electoral roll and that 44 per cent of these mistakenly think they are registered (ONS, 2013b).

"I got refused and they led me to believe that I had bad credit. In reality, I probably had no credit history. I wish they had told me things like going on the electoral roll or getting a phone contract would help." (Consumer interview, Glasgow; Rowe et al, 2016: 24)

The particular issue of improving access to credit for tenants is currently being addressed (see section 6.5.2; Box 6.3). However, it begs the question of how many other consumers could gain access to credit and more affordable terms if non-standard (sometimes called ‘alternative’) information were included in credit files? Some firms are adopting an approach which bypasses traditional credit scoring and builds scorecards using Big Data instead (see section 6.1.4). However, this raises different issues which Cullerton (2013) categorises as follows:

- **Transparency.** Most computer users are unclear about who is tracking them, what data is being gathered and how it is being used. In the UK, the strengthening of ‘cookie’ policies (PEC(ECD) 2003; (PEC(ECD)(A) 2011)²¹ has given consumers the opportunity to be more aware that data is being collected as they browse the internet. However research suggests understanding is poor (PWC cited in ICO, 2012).
- **Consent.** Since how data is used is unclear, it is debatable whether consumers have really given consent as required under the Data Protection Act 1998 (Schedule 2, paragraph 1).
- **Discrimination.** While traditional credit scoring trends may cause detriment to people with thin credit files, Big Data may discriminate in other ways, for example, excluding those who do not shop in particular stores or who make limited use of social media. There is also a feedback loop because data collected is used to create targeted adverts that may drive a consumer’s behaviour and habits in a particular way, thus reinforcing this social discrimination (ICO, 2014).
- **Context.** Information may be freely shared in one context, such as a social media site, but its reuse in another, such as lending decisions, may seem inappropriate both to the consumer and society more generally, and regulators may question it.

A characteristic of Big Data is that very wide and varied types of data are used collectively. Kreditech, for example, is reported to use 15,000 data points in its credit scoring algorithm (King, 2014) - making it even more difficult to give consumers an indication of the reason if they are declined for credit. There is also a question mark over how relevant all this data might be and whether it can be justified under data protection principle 3 (see section 6.2 above) (ICO, 2014).

6.3.4 Inaccurate data

Many of the credit reference complaints made to the Financial Ombudsman Service are about incorrect information and administrative delays in getting the error corrected. As the examples in Box 6.1 show, the consequences for the consumer can be costly and distressing. The examples also highlight consumers’ general lack of understanding of the complexities of the system, in particular that the credit reference agency is not usually the owner of the data and so cannot change the entry without permission from the original source.

A tally of complaints is likely to give a poor indication of the scale of the problem, because not all consumers complain. A survey looking at problems with all types of goods and services, not just financial, found that 6 per cent of consumers complain to an ombudsman or similar organisation (Department for Business Innovation and Skills (BIS), 2014). In research by Which? (2014) where 81 volunteers ordered statutory reports from all three credit reference agencies, a third of the participants found a problem on their file which they disputed. It should also be noted that a third of participants found the information provided to be full of jargon and confusing to understand, despite a legal requirement that statutory reports should be given in plain English (Data Protection Act 1998, s158 (5)). A study in the USA (Federal Trade Commission cited in National Consumer Law Center, 2014) found that 20 per cent of traditional credit reports contained errors, with around a quarter of these errors reducing credit scores. However, new-style Big Data credit scoring seems to fare even worse for accuracy. Again drawing on US research, obtaining the data was challenging, the reports were not comprehensive and between 67 and 100 per cent of them contained inaccuracies which ‘*ranged from the mundane—a wrong e-mail address or incorrect phone number—to seriously flawed*’ (National Consumer Law Center, 2014: 4).

²¹ Among other measures, these regulations require that people give consent before information can be gathered from their computers. A cookie is a small file of information stored on a user’s computer to be sent to a website.

Box 6.1: Examples of complaints to the Financial Ombudsman Service about credit referencing

Mr B complained because incorrect information was showing on his credit file (this was someone else's information). This had prevented him from getting a credit card. The credit reference agency said the incorrect information had come from a previous lender and the lender had not given it permission to amend the file. As a result the incorrect information had remained. The Ombudsman Service decided it was not the fault of the credit reference agency. After the Ombudsman got involved the lender agreed to amend the information on the consumer's file.

Mr D was unhappy that a firm registered a County Court Judgment on his credit report incorrectly. The person whose default this was had a similar name. Two days before the consumer was due to move into a new rental property the landlord cancelled the agreement based on this credit file information. He then had to move somewhere else – at a higher rent. He also lost a £550 deposit. The Ombudsman agreed Mr D had suffered significantly due to this error and awarded £550 plus 8% interest plus £200 for the trouble and upset.

Mr F checked his credit file and noticed he was linked to an address he says he has never lived at. He explained that this resulted in a mortgage application being refused. He complained to the credit reference agency concerned. It said its role is to record information given to it by creditors. It had noted the addresses given to it for the consumer. The agency agreed to raise the issue with the consumer's creditors. Some agreed to change the information, others refused, and several wished to discuss the matter with the consumer directly. Mr F was unhappy with this and brought a complaint to the Financial Ombudsman Service to consider. The case was not upheld as the Ombudsman Service explained that the credit reference agency cannot remove the information without the permission of the creditors.

Mrs G complained about inaccurate information on her credit file. The credit reference agency informed her it was information supplied by her bank – so she pursued a complaint against the bank – which took two years. It emerged during this complaint that it was in fact incorrect information from another business. The credit reference agency admitted it had unknowingly given the consumer the wrong information. The Ombudsman Service upheld the case and awarded £800 compensation for the distress and detriment caused.

(Source: Financial Ombudsman Service, 2015b)

6.3.5 Lack of incentives to progress

Consumers with poor credit histories or thin credit files who are unable to access mainstream credit may turn instead to high-cost short-term credit, such as payday loans. Most payday lenders both use and provide credit reference agency information (CMA, 2015a). However, there is some evidence (Gathergood et al, 2014) that mainstream lenders may score the use of payday loans as a negative factor in their creditworthiness assessments, meaning that consumers can become trapped in the high-cost lending sector.

“They say, normally people like you get payday loans. Well I don’t want to get a payday loan do I, because I know they’re bad for you. So now I’ve got nothing. The bank doesn’t want people who look like me.” (Consumer interview, Bolton; Rowe et al, 2016: 35)

It has been argued (Gathergood et al, 2014) that, far from being negative, if consumers can show a good track record of paying back payday loans, this should be interpreted as a positive factor leading to an improving credit score. If payday lenders rewarded borrowers with a good payment record with lower interest rates, this would create an incentive to adopt positive borrowing behaviour. This virtuous cycle would help borrowers to move into the mainstream credit market – assuming the mainstream market provided the credit products that consumers wanted. However, until recently, credit reference agency systems have been weak at capturing information relevant to payday lending. This is because data has generally only been updated monthly, whereas payday loans are shorter term and generally taken out instantly. This is now changing, as we see in section 6.5.3 below.

6.3.6 Disincentive to shop around

The Government has identified active consumers as key players in increasing competition and improving national prosperity (HM Treasury, 2015a). Yet, perversely, it has been suggested that credit scoring works against this and has been described as *‘inherently anti-competitive’* (Gathergood cited in Treasury Select Committee, 2014: 9). It is claimed that problems stem from the way credit is priced and the way credit reference agency searches are recorded.

Although price comparison websites allow consumers to search for a wide range of credit products, the prices (annual percentage rates, APRs) shown are representative of the rate that at least 51 per cent of consumers responding to the marketing are likely to get (FCA, 2014a, CONC 3.5.3 and guidance at CONC 3.5.6). If the lender is one which operates risk-based pricing, then the representative APR does not enable individual consumers to know what they personally will be charged or if their application will be accepted, since this will depend on the creditworthiness check. Many lenders will not give that information without carrying out a full ‘application search’ as if the consumer were ready to apply for the credit deal. The snag is that these application searches are recorded on the consumer’s credit file, visible to every lender who checks it and can have a negative impact on the consumer’s credit score. This is because lenders generally consider multiple application searches to be an indication that the customer is credit-hungry and high-risk (Gathergood cited in Treasury Select Committee, 2014). It has been suggested that five or more searches within three months could have this adverse effect (Treasury Select Committee, 2009).

“I know that you’re not supposed to apply for many credit cards or that looks bad. So I always try and wait a while before I do the next one if I get turned down, as I often try and get good deals and balance transfers, that sort of thing. Normally I try to wait about six months but sometimes it’s really difficult.” (Consumer interview, Birmingham; Rowe et al, 2016: 35)

In theory, a consumer who wants to shop around can avoid this problem by asking lenders to carry out a ‘quotation search’ (also called a ‘pre-application search’). This can gather similar information to an application search but leaves a different footprint on the credit file. A quotation-search footprint does not pass through into the credit scoring process or affect the customer’s ability to get credit. The industry’s self-regulation rules state that *‘on credit products that require access to CRA data in order to give consumers a price quotation, lenders should be able to record a quotation type search’* (SCOR 2015, rule 5.2.1) and that lenders should proactively establish whether the customer is applying for the credit or just looking for a price indication. The FCA rules do not require this, but offer guidance that: *‘where practicable, firms should facilitate customers shopping around by offering a “quotation search” facility’* (FCA, 2014f, CONC 2.4).

In practice, some lenders seem reluctant to offer quotation searches. In the context of payday loans, the Competition and Markets Authority (2015a) suggests this might be due to cost. If, having asked for a quotation search, the customer goes on to take out a loan, the lender is likely to then carry out a full application search. If lenders are paying per search, this procedure would increase the cost of the application process, which may in turn be passed on to borrowers. However the FCA (2015j, para 4.17) has reported '*progress towards a market-based approach to quotation searches*' and that some price comparison websites now use such searches to give an indication of likely eligibility for some types of credit.

6.4 Through a consumer's eyes: what might good look like?

The issues discussed above highlight the problems consumers face in accessing credit through automated processes. By inference, they also suggest what a good consumer journey might look like:

- An obvious one-stop shop for consumers to go to for trusted, independent guidance about credit application processes.
- Ability to shop around for credit based on prices that consumers are likely to get given their circumstances and without damage to credit scores.
- Clear reasons given if turned down, together with suggestions for improving credit scores and signposting to other lenders if relevant.
- Ability to easily access clear information on options for checking credit files, including the statutory report.
- Credit files that are easy to understand.
- Credit files that are accurate but, where errors exist, a fast, easy service for getting mistakes corrected.

6.5 What is happening so far?

This section provides some examples of actions being taken to address the issues consumers face accessing credit. These are summarised in Table 6.1. As in previous chapters, we do not claim to have identified every action and hope that the discussion here and the summary table will provoke discussion and consideration of further examples.

6.5.1 Lack of consumer understanding

Like the credit reference agencies, some lenders publish their own information for consumers about credit scoring and how to improve credit scores. Some provide free access to online credit reports as well (Box 6.2). Some information and advice organisations include guidance on credit referencing and scoring on their websites.

Box 6.2: Understanding credit scores

Halifax provides its bank account customers with free online access to their credit score and full credit report, along with tips on how to improve their credit rating. The service is aimed at basic bank account holders and others who may find it difficult to access credit. The data is provided by Callcredit under its Noddle brand. There is a separate website with information for consumers who do not have a credit report. If a credit report becomes available, Halifax emails the customer to let them know (Source: FCA, 2016b).

6.5.2 Thin/empty credit files

Big Issue Invest (2010) conducted a joint pilot project with Experian between 2007 and 2010 to test if the record of rental payments made by social tenants was predictive of their likelihood to keep up consumer credit payments. The study found that, for social tenants with empty credit files, there was a large significant improvement in prediction using scorecards that included rental data compared with scorecards that excluded the data. For social tenants with thin credit files, there was a smaller but still significant improvement. Since the pilot, Experian, working with Big Issue Invest, has set up The Rental Exchange (Box 6.3). Meanwhile, the Information Commissioner's Office (2015) has published a paper giving an overview of Big Data trends, in which it states that the data protection principles apply equally to this area and provide a framework for, rather than a barrier to, innovation.

Box 6.3: The Rental Exchange

On the basis of a successful pilot project, Big Issue Invest estimated that 70% of the 4.2 million social tenants could benefit from increased access to credit or reduced cost if rental data became a standard factor in credit scores. Since the pilot, Experian, working with Big Issue Invest has set up The Rental Exchange, to help tenants build their credit files.

The Rental Exchange is a separate database containing rental payment records that can be built into credit scoring. By March 2016, 1 million social tenants were included in The Rental Exchange (Big Issue Invest, 2015). Part of the benefit of the Rental Exchange is that it also provides social tenants with online verification of identity, potentially increasing access to other financial products beyond just credit (see Chapter 5).

6.5.3 Lack of incentives to progress

Following pressure from the FCA, most payday lenders now use real-time data (FCA, 2014f). This at least creates an environment where it would be feasible for lenders, if they choose, to reward customers who successfully manage payday loans with reduced interest rates.

6.5.4 Disincentives to shop around

A number of banks and other consumer credit providers have online tools or manual processes so that their customers can check their credit eligibility to borrow from that bank without leaving a credit footprint (Box 6.4).

Box 6.4: Credit eligibility checks that do not leave a credit 'footprint'

Barclaycard's website has an Eligibility Checker that gives customers an indication of which Barclaycard product they would qualify for, and the APR, without leaving a credit footprint that might adversely affect their credit record. For current account customers, Barclays also shows a pre-approved lending limit that the customer can get from them, based on behavioural data. So the customer knows how much they may be able to borrow before going through the credit application process and leaving a credit footprint. (Source: FCA, 2016e).

RBS/NatWest has developed a Lending Toolkit that allows current account customers to assess their eligibility to get an overdraft, loan or credit card without affecting their credit score. Frontline staff can take customers through a pre-assessment process. This process lets the customer know how likely they are to be approved, plus a guide APR and credit limit. If the pre-assessment concludes that the bank is unlikely to be able to lend to the customer, the toolkit provides the customer with the main reason why and links to guidance about additional information that staff can give customers to better understand the decision. Staff also refer customers to sources of free independent advice such as The Money Advice Service (Source: FCA, 2016c).

The Competition and Markets Authority (2015b) has made an order requiring all payday loans to be recorded on at least one price comparison website in order to help consumers shop around. In its final report on the issue, the CMA discussed whether it would be possible to require price comparisons to be made using a standard credit score, presumably the same credit bureau score that credit reference agencies sell to consumers, to make the price information produced by such sites more personalised. However, the CMA (2015a) identified three problems:

- Lenders would not rely on standard scores and so the price indication would still not be the actual cost of credit for the particular consumer.
- Customers would need to get the score from a credit reference agency. Apart from the confusion caused by different agencies providing different scores, this would impose a cost on the consumer.
- A standard score may not be a reliable basis for estimating the cost of credit as the lender will also take into account other factors, such as affordability checks.

The CMA (2015a) has recommended that the FCA work with lenders to encourage greater use of quotation searches which might be a more feasible way of promoting shopping around without damage to credit scores. As noted above, the FCA (2015j, para 4.17) has reported some progress here and the emerging use of quotation searches by some price comparison websites to give indications of likely eligibility for some types of credit.

Table 6.1: Examples of what is happening so far

Issue	What's being done by:				
	Government	Regulators	Firms	Consumers	Others
Lack of consumer understanding		ICO guide	Consumer education materials Free credit report (Halifax)		Information and advice organisation websites
Lack of information on refusal			Feedback as part of Lending Toolkit (RBS/NatWest)		
Thin/empty credit files		ICO monitoring Big Data innovations	The Rental Exchange (Experian) Use of Big Data		The Rental Exchange (Big Issue Invest)
Inaccurate data					
Lack of incentives to progress		Shift by payday lenders to real-time data	Shift by payday lenders to real-time data		
Disincentive to shop around	CMA requirement that payday loans be covered by at least one price comparison website and link to it be included on lenders' sites		Credit eligibility checks that do not leave a credit footprint (e.g. Barclaycard, NatWest) Some price comparison sites using quotation searches		

7 Segmented markets

We live in an age where often the biggest problem for consumers is trying to make informed choices when faced with an abundance of options. For millions of consumers, the experience of buying insurance is quite the opposite. Consumers who are deemed by insurance companies to be high risk or ‘non-standard’ may find few options open to them - though this may become apparent only after a lengthy, sometimes distressing search. If they can find products, these consumers may end up paying a high price for a product that doesn’t fully meet their needs. As insurance markets become increasingly segmented (Cullen, 2015a), and some significant ‘non-standard’ sectors grow (such as the over-65 age group), these issues are likely to increase.

The solutions are not easy. There is a tension between letting the insurance market operate freely and intervening in the name of social justice. There have been some promising initiatives, such as better signposting, and these could possibly be extended to benefit more consumers.

7.1 Context

There are two conflicting trends in insurance. The first is a move towards more individualised assessment of risk (Cullen, 2015a) which enables insurers to more accurately price risk and determine the reserves they need to set aside. The second is growing digital access, with algorithms automatically assessing the risk and producing quotes, which cuts costs through economies of scale²². Both trends create potential benefits and disadvantages, though in each case some of the winners and losers will be different.

7.1.1 Insurance principles

There are two broad approaches to insurance (Mabbett, 2001). The first is based on the principle of mutuality, where all members pay into a pot of funds that pays out to members with a valid claim. The main task in running a mutual fund is estimating the likely number and size of claims and setting the premium for all at a level that will ensure claims can be met. This approach, which was taken by the early friendly societies and underpins the welfare state (social insurance), involves cross-subsidy, with those who do not claim, or claim least, subsidising those who do. The second approach is individualised risk-pricing. The aim here is to estimate as precisely as possible the risk of each policyholder making a claim and tailoring the premium for that person to reflect that risk.

Where evidence to assess individual risk is thin, risk-priced insurance can look a lot like mutual insurance. Groups of policyholders are pooled together and premiums are set for the group as a whole, based on statistics for the group or an even wider population. As Cullen (2015a: 40) suggests: ‘while a “risk sharing” environment has never been a principle of insurance, it has been a historic norm created by a lack of granular risk information’. As information improves, risk pools can be segmented and more precise premiums set for smaller, more tightly focused pools. In the process, the cross-subsidy between different types of policyholders is reduced and the insurance looks progressively less like the mutuality model.

“Our insurance, if we had it and we don’t, would be expensive because it’s a bad area. People get burgled and cars get burnt out a lot. There’s no way we can afford to have contents or something like that.” (Consumer interview, Manchester; Rowe et al, 2016: 23)

²² Economies of scale occur when the average cost (per unit) of producing goods or services falls as the volume of output increases. Automated processes often allow increasing volumes of business to be transacted with only a small rise in overall cost, thus generating economies of scale.

More accurate claims prediction reduces uncertainty for the insurer and may reduce the level of reserves it needs to hold. However, with all insurance, including that based on the mutual principle, there is also pressure to move towards individualised pricing due to the problems of moral hazard and adverse selection (Mabbett, 2001).

Moral hazard occurs where insured people expose themselves to additional risk precisely because they are insured. In a small mutual group (for example one based around a particular neighbourhood or local workplace), it might be possible for members to 'police' claims made by their fellow members in order to reduce moral hazard. In large, geographically spread groups, this becomes more difficult, although it may be tackled through policy excesses (the first part of a claim to be paid by the insured who therefore continues to bear some risk) and exclusions (removing cover for more risky behaviour).

Adverse selection occurs where the people at highest risk are more inclined to buy cover. This drives up claims and the cost of insurance for everyone in the pool, and deters customers who perceive themselves as having a low likelihood of claiming. This further increases the claim rate for the pool and cost of cover for all, and so the negative cycle continues. Adverse selection can also be addressed through exclusions and even refusal to cover (ensuring the pool consists only of relatively homogeneous members). However, a key way to tackle both adverse selection and moral hazard is to charge each person a premium that more accurately reflects their own personalised risk of claiming.

As insurance moves further towards individualised risk-pricing, some people will pay lower premiums than they did as part of a larger pool. Others may see their premiums rise, be priced out of the market completely or even deemed uninsurable. In the face of increased segmentation, whether to protect consumers from high personalised insurance premiums and refusal of cover is often characterised as a social policy rather than a commercial decision (Cullen, 2015a; O'Neill and O'Neill, 2012), as the examples in Box 7.1 illustrate.

In some instances, the impact of social policy may be more complex. An example is the European Court judgment on the use of gender in insurance, and the subsequent change to UK legislation to ban insurers from using gender as a risk factor (Box 7.2). At first sight, this could be interpreted as a reduction in segmentation with both genders being combined. However, the European Court implied that gender was being used as a proxy for more detailed behavioural factors and suggested data on these should be captured directly so that risk could be attributed more correctly, which could be seen as a call for greater segmentation.

Box 7.1: Examples of social policy overriding the commercial insurance principle**Flood insurance**

Some areas of the UK have become prone to severe flooding, making homes there potentially uninsurable or unaffordable. Since 2000, there has been an agreement between the Government and insurers, to ensure that many homeowners are still offered cover. Even so the cost can be prohibitive and the conditions onerous. For example, one policyholder in Herefordshire, having made a flood claim, was quoted a renewal premium of £2,600 for his three-bedroom house. Shopping around, he was able to reduce the cost to £800 but had to accept a £5,000 excess (BBC, 2016b). A new scheme, called Flood Re (Department for Environment, Food and Rural Affairs (DEFRA), 2014), has been established under the Water Act 2014 to address the problem. The Flood Re scheme is a not-for-profit flood reinsurance fund, owned and managed by the insurance industry, established to ensure that domestic properties in the UK at the highest risk of flooding can receive affordable cover for the flood element of their household property insurance. Under the scheme, which started in April 2016, insurers are able to reinsure (pass on the risk) of flood cover at a cost linked to the Council Tax band for each home concerned. Flood Re will be financed by an industry-wide levy. Consumers in high-risk areas will still buy insurance as normal but should find more insurers willing to provide cover and the cost more affordable. Insurers paying the levy are likely to pass on the cost of it by increasing the premiums they charge to all insured homeowners (Ralph, 2016b). In this way, every consumer in the wider insurance pool will cross-subsidise insured owners in flood-prone areas.

Genetic testing

Normally, an insurer is allowed to ask customers about all information that is relevant to assessing the risk of a claim and setting an appropriate price for cover. This includes medical information. However, since 2001, the Government and the insurance industry have had an agreement (Association of British Insurers (ABI), 2014a) that, in most cases, insurance firms will not seek information about predictive genetic tests or put pressure on consumers to take them as a condition of getting insurance. Under the agreement, tests will only be used at all for underwriting life cover greater than £500,000, critical illness cover (CIC) over £300,000 or income protection (IP) insurance paying out more than £30,000 a year, and only where an independent panel has agreed that the test should be disclosed if the insurer asks about it. In early 2016, only one test had been approved for disclosure (Huntingdon's Disease in the case of life cover above the £500,000 limit). The reason for the agreement is to guard against consumers avoiding predictive genetic tests for fear of being refused insurance and so suffering harm that might have been avoided, such as passing on an inherited condition (NHS, 2014). Consumers can voluntarily tell insurers about favourable test results and the insurer might reflect that in the price and cover offered. The outcome of the agreement is that there is a deliberate cross-subsidy from all life, CIC and IP policyholders to those who are more likely to claim because of a genetic predisposition.

Box 7.2: Example of social policy requiring increased use of information**Gender and insurance**

Like age, gender used to be an important factor for insurers in assessing risk and setting an appropriate premium. For example, statistics showed that women drivers generally had fewer and less costly accidents than men, so their motor insurance premiums were lower. On the other hand, they tended to claim more on health insurances and so tended to pay more. As such, there had been a longstanding exemption under European equality legislation, allowing member states to permit insurance companies to use gender as a discriminating factor in insurance decisions, provided this was based on sound and up-to-date actuarial data.

This changed following a challenge by the Belgian consumer group, Association Belge des Consommateurs Test-Achats, which successfully argued that such exemptions were contrary to the principle of equal treatment of men and women contained in EU law (Directive 2004/113/EC). As a result, from 21 December 2012 onwards, insurers could no longer take gender into account in deciding whether or not to offer insurance and setting price. The judgment suggested that, in effect, gender had tended to be used as a proxy for other factors and that insurers should consider using lifestyle factors instead (Post Magazine cited in House of Commons Library, 2013).

7.1.2 Big Data

Increased segmentation of insurance customers relies on improving types, quality and volumes of data and the techniques to analyse them. Technical innovation is opening up an array of new data sources. Chapter 6 considered how Big Data, for example, from social media, is altering the way some providers assess credit risk. In a similar way, Big Data is beginning to change the way insurers assess risk.

In motor insurance, the number of major insurers offering telematics is rising rapidly (BIBA, 2015). Telematics are devices that record a wide range of data about an insured person's driving and send it back to their insurer. Depending on the system and the options chosen, telematics can provide the insurance company with data about a driver's speed, acceleration, cornering, braking, distance travelled, familiarity of routes and times of travel. (Telematics.com, no date). Telematics can be interactive, feeding back real-time warnings if the driver is behaving dangerously or speeding, or providing a continuously updated score that rates how well the person is driving (similar to the generic credit scores marketed by credit reference agencies, as discussed in Chapter 6). Telematics data enables insurers to assess a driver's risk more accurately and so can be used to set individualised risk-based premiums.

It is estimated (Economist, 2013) that, using telematics, good drivers pay 10 to 40 per cent less than the standard rate. BIBA (2015) suggests that young drivers, who as a group are deemed high risk and charged high premiums, could save as much as £1,000 a year if their telematics reveal that they are safe drivers. Of course, the flip side of this refined segmentation is that poor drivers are likely to pay more and could even be priced out of the market. Telematics feedback, particularly on a real-time basis, could also encourage safer driving with reduced insurance premiums as the reward and benefit to society in the form of safer roads, although evidence on this potential behavioural effect is so far inconclusive (Tong et al, 2015). Insurers can also use telematics in other ways to reduce risk, for example, excluding cover for night-time driving or charging less to drivers who avoid rush-hour (Telematics.com, no date).

Telematics have the potential to transform other areas of insurance too. Some US insurers are already providing policyholders with free fitness trackers and giving premium reductions to those who meet daily activity targets (Tech Insider, 2016). Some insurers (for example Prudential, 2016; Aviva, 2016) try to encourage healthier habits by offering discounts for gym memberships and fitness trackers. Both the number of health insurers involved and the types of data gathered this way are expected to expand over the next decade (Forbes, 2014).

Similarly, the 'Internet of Things' (the combination of sensors on everything with the ability to transmit this data to centralised hubs where they can be analysed) has the potential to revolutionise the way, for example, home insurance is risk assessed and priced. It can do this by providing alerts based on data about minor maintenance issues before more costly problems develop (TechCrunch, 2015) and tracking habits, such as locking doors and windows. Analysts suggest that this area may take time to develop because most devices within the home are not currently connected to each other, but technological solutions to overcome that are already being developed (Kearney, 2014). Ultimately, insurance may shift from covering the things we use (car, home, and so on), to our usage of them, possibly with single, personalised policies that provide multiple areas of cover (Cullen, 2015b).

7.1.3 Automated processes

Insurers achieve economies of scale if they can funnel large numbers of customers through a standardised underwriting process, especially if it can be automated and delivered online. The mainstream insurance market conforms to this low-cost model which rules out the level of detail needed to cater for 'non-standard' risks (Cullen cited in Financial Inclusion Commission, 2014). As a result, consumers with less common risk factors may find they are refused cover or quoted unusually high premiums when they search on comparison websites, because their non-standard circumstances are outside the parameters of the automated algorithm. The number of consumers who may find themselves in such non-standard categories is large, including, for example:

- 9.4 million people aged 65 and over who may want to travel (Help the Aged cited in House of Commons Library, 2013).
- Three million people with disabilities who have been turned down for insurance or charged extra (Extra Costs Commission, 2015a).
- 2.5 million people living with or after cancer, forecast to rise to four million by 2030 (Macmillan Cancer Support, 2015).
- Around 750,000 of the more than nine million people in the UK with a criminal record whose convictions are unspent (ABI, 2014b; Stacey cited in Financial Inclusion Commission, 2014).
- Customers who have made multiple claims within the last few years (Box 7.3).

Many low-income households may also perceive themselves as non-standard when, for example, they reject mainstream home contents insurance policies as a poor match for their particular needs (Dayson et al, 2009).

Box 7.3: Problems accessing insurance

Over a three year period, Fiona successfully made three legitimate claims on two different buildings and contents policies. When she looked to renew her insurance, she was horrified to discover that the vast majority of insurers would not even provide her with a quote, due to her claim history. She only found this out when she complained to an insurer about the fact they would not give her a quote.

“So I’m asking for a quote after doing all the right things and looking at the best-rated contents provider, etc. And they’re just refusing to even provide a quote! Most people would have given up but I persevered and it was only after I complained they said they wouldn’t quote because I’d claimed three times in the past five years, on different policies.”

Fiona is now unable to switch providers or negotiate a cheaper premium for her buildings and contents cover. What’s more, she has been discouraged from making any further claims if the need arises, as she is unsure how they will affect her ability to buy insurance in the future. This renders elements of her insurance practically useless.

“What is the point of having insurance if you can’t use it to claim on? I did everything right from a research point of view, I found the top recommended insurers, but they wouldn’t even provide a quote.”

In Fiona’s situation, a different insurance product, such as catastrophe-only insurance, might have been a better option if it were available. Other respondents in the qualitative research on Access commissioned by the FCA were frustrated that they could not buy insurance that was tailored to their particular circumstances. Toby, for example, could not get the travel insurance he wanted for an adventure holiday, and eventually went ahead uninsured.

“It’s a lose:lose situation. I was willing to pay more, but they wouldn’t even “It’s a lose:lose situation. I was willing to pay more, but they wouldn’t even have a conversation with me... in the end I just had to go without appropriate cover.”

(Source: Rowe et al, 2016: 25, 29, 39)

7.2 Current regulation

Providing insurance is a regulated activity subject to FCA rules, in particular conduct of business rules (FCA, 2016f). It is also subject to the Equality Act 2010. In general, this bans discrimination due to: disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex or sexual orientation. However there are two particular exceptions to note:

- **Disability.** For the purpose of insurance (but not other financial services), an insurance business is allowed to treat someone with a disability differently, provided the information used is relevant and from a source that it is reasonable to rely on, and discriminating is a reasonable thing to do. (Equality Act 2010, Schedule 3, para 21). As the Equality and Human Rights Commission (2011: 28) notes: *‘Using untested assumptions, stereotypes or generalisations can lead to unlawful discrimination’*.
- **Age.** The provider of any financial services, including insurance, may discriminate on the grounds of age. If a risk assessment is involved (as is the case with insurance), information used must be relevant and from a source that it is reasonable to rely on. (Equality Act 2010, Schedule 3, para 20A)

The Consumer Insurance (Disclosure and Representation) Act 2012, which came into effect from 6 April 2013 onwards, made an important change for consumers. Before this Act, a customer seeking insurance was under a duty to disclose to the insurer every ‘material circumstance’ that might be relevant, whether or not the insurer specifically asked for the information (Marine Insurance Act 1906, s18). This put consumers in an impossible situation of having to second guess what an insurer might want to know. The Financial Ombudsman Service and the Association of British Insurers (ABI) had both recommended a more realistic approach (see, for example, FOS, 2001) and the Consumer Insurance (Disclosure and Representation) Act 2012 codifies this good practice. Consumers are now required ‘*to take reasonable care not to make misrepresentations*’ and this is judged in the light of, for example, how clear and specific the insurer’s questions were and any explanatory material the insurer provided (The Consumer Insurance (Disclosure and Representation) Act 2012, ss17-18).

In the case of consumers with convictions, the Rehabilitation of Offenders Act 1974, Rehabilitation of Offenders (Northern Ireland) Order 1978 and Legal Aid, Sentencing and Punishment of Offenders Act 2012 are important in setting the length of time before a conviction counts as ‘spent’ and ensuring that spent convictions do not have to be disclosed, for example, when applying for insurance.

As discussed in Chapter 6, the use of Big Data is governed by data protection regulation. The Data Protection Act gives individuals the right to obtain a copy of information held about them, in an intelligible form, and also allows them to request information about the logic behind automated decisions (Data Protection Act 1998, ss7 and 9). This means that where a decision to grant or refuse insurance has been completely automated, a consumer who is turned down can require that the decision be reconsidered or that a decision be taken again otherwise than on an automated basis (Data Protection Act 1998, s12(4) to (7)).

The industry is self-regulated in some areas through agreements made between its trade bodies, primarily the ABI and the Government. The ABI also issues non-binding guides to good practice.

7.3 Issues

Consumers who have non-standard risk factors often find it hard to get cover or else have to pay higher premiums when they do find it. The industry’s lack of transparency about the statistics that justify its assessments of risk make it impossible for consumers to know if they are paying over the odds. This in turn fuels a lack of trust in insurers and insurance, as we saw in Box 7.3. The industry trade body, the ABI, issues good practice guides (e.g. ABI, 2014b; ABI/BIBA, 2013) that can potentially address some of the issues, but only if firms follow the guidance.

7.3.1 Lack of products

Consumers who are seen as higher-risk or in a non-standard group often find it hard to track down any suitable cover or insurer who will insure them. They may become trapped in a ‘maze’ that appears to offer nothing. The most accessible ways to search, such as comparison websites, tend to cater for the mainstream (see, for example, Extra Costs Commission, 2015a; Which? 2016), and sifting through individual companies can be time consuming, exhausting and dispiriting. As one consumer put it: ‘*How do you know when you’ve fully exhausted the search? At what point do you stop?*’ (Consumer interview; Rowe et al, 2016: 15).

"The lady did actually say: 'Look, we can't cover you but we know someone who probably can.' She said she shouldn't really tell me but I'm so glad she did, as they covered me and I can keep driving now." (Consumer interview, Watford; Rowe et al, 2016: 25)

"[There is a lot of] energy required to try and find insurance for people affected by cancer. You can't just go through a price comparison website; often it's individually calling individual firms. After 1, 2, 3, 4 rejections, you can understand that people might think that no-one's going to offer [them] cover, [they'll] just give up now, it's [become] too tiring." (Expert interview; Rowe et al, 2016: 32)

"We aren't going on holiday this year because I just cannot get any travel insurance cover, and we just won't go without. Everyone I called said that my arthritis is just too bad this year." (Consumer interview, Watford; Rowe et al, 2016: 23)

"It's not simply the case that disabled people aren't searching hard enough to find products, it's often that products are simply too expensive for this group, or in many instances just not there." (Expert interview; Rowe et al, 2016: 33)

"We do not get the opportunity to shop around for insurance on the car – due to modifications for the wheelchair a lot of companies won't even quote." (Extra Costs Commission, 2015a: 34)

Older customers looking for travel insurance commonly find few products because many policies have an upper age limit. For example, Help the Aged (2008, cited in Age UK, 2016) found that 97 per cent of travel policies have an upper limit. The plight of older people has now been partially addressed by an agreement between the ABI and BIBA so that customers who are refused travel (or motor) insurance should normally be referred to alternative insurers or a suitable signposting service (see section 7.5.1).

People affected by cancer are frequently turned down when seeking travel insurance, especially if they are still receiving treatment or their condition is terminal. Despite a high profile campaign in 2007 which met with some success, Macmillan report that the volume of calls to its helpline about travel insurance indicates that access is still a major problem (Macmillan, 2014a; 2014b).

Research for Scope (Ipsos MORI, 2013) found that eight per cent of people with a disability have been turned down when seeking insurance, particularly life or travel cover.

The Prison Reform Trust and Unlock (2010) report that the reaction of major insurers to disclosure of a conviction is *'almost always a blanket ban, without analysis of the relevance to the risk posed'* (p.57). This applies equally to the 99 per cent of offenders who serve their sentence in the community as to the one per cent who go to prison. The consequences of refusal can be grave: offenders who cannot get motor insurance may be unable to get work, those who cannot get buildings insurance or whose policies are cancelled breach the conditions of their mortgage and may lose their home and those who want to become self-employed may find they cannot get the necessary cover, such as public liability insurance. These problems extend beyond the offender themselves, with insurers refusing buildings cover to householders who have an offender living with them (see Box 7.4, and Box 7.6 for the questions asked about this on proposal forms).

Box 7.4: Wider impact of problems accessing insurance**Health issues and travel insurance**

Alison is in her 70s and currently in relatively good health. She was diagnosed with terminal cancer in 2014 and has been given two to five years to live. Alison tried to find travel insurance to enable her to go on holiday with friends and family after her recovery, and her consultant was very happy to write her a letter to say she was fit for travel. In an effort to get insurance for a 10 day cruise, she tried multiple insurers, receiving poor customer service from some, and little help from others. Eventually she was able to buy insurance, but it cost as much as the cruise itself.

"I tried lots of travel insurance companies who claim to specialise in providing cover for people with pre-existing medical conditions and I tried a dozen others recommended on the Macmillan website. Even though I told the companies that my life expectancy was two to five years, apart from one they all asked if I expected to be alive six months after returning from my holiday, I found this quite distressing and unnecessary. Some said they wouldn't quote for terminal illnesses and could direct me to someone who would, one said they would call me back and never did. So I ended up going with the only insurer that would cover me at a cost of £1,300 for a 10 day cruise in Europe."

On another trip, the problem seemed to extend to family members travelling in the same party, as Alison was down as the 'organiser'. This meant that Alison's family could not secure insurance for themselves, independently of Alison, and they struggled to understand why this was the case.

(Source: Rowe et al, 2016: 33, 38)

Convictions and buildings insurance

Paul came out of prison after serving a 4 month sentence for theft. Luckily for Paul, he was able to move back home with his dad. Stable accommodation is a key factor in reducing the risk of people re-offending.

Unfortunately, his dad didn't realise the impact his son's criminal record would have on his buildings insurance. When he came to renew his policy, he saw the details he'd provided about people living in the property – he'd previously said nobody had any unspent convictions. That had changed since his son returned home. When he told his insurers, they said they could no longer insure him and wouldn't renew his policy. Suddenly, without buildings insurance, his mortgage was at risk.

Paul's sentence for theft was technically unspent under the Rehabilitation of Offenders Act 1974 and would remain that way for a further two years after the end of his full sentence. Major home insurers take a blanket policy towards people with unspent convictions – they simply don't offer insurance to people with unspent convictions, without any consideration of how relevant it is.

When Paul got in touch with the Unlock helpline, it advised him where he stood. It informed him that his dad would need to disclose his son's conviction while it was unspent and while he was still living there. Unlock also provided him with its list of specialist insurance brokers who can help people in these types of situations. When Unlock spoke to Paul a couple of weeks later, he said:

"I've finally been able to find insurance for my dad's house through Unlock's list. We've had to pay quite a bit more, but at least we've got something. At one point my Dad was really worried that he was going to have to throw me out the house as he didn't want to take the risk with his mortgage. I was never told anything about the problems around insurance when I left prison, and I don't see why it makes a difference to my dad's insurance."

Source: Unlock (2016)

The take up of insurance among low-income households is markedly lower than for the rest of the population. Fewer than half of the poorest tenth of households have home contents insurance compared with over 75 per cent for the UK population as a whole (Dayson et al, 2009). One of the barriers to taking up this insurance is that it is often not suited to the needs of low-income households who may want to pay weekly, need low level of cover and no excess (Dayson et al, 2009; Financial Inclusion Commission, 2015).

7.3.2 High prices

Segmentation means that consumers who are assessed by insurers as higher risk will, if accepted for cover, be charged a higher price. The premium may be so high that insurance becomes unaffordable (Extra Costs Commission, 2015a).

"I have a ball on the steering wheel costing £25...every single insurance company tried to charge me more because my car is adapted. I phoned one of them and demanded why they wanted to charge me £££s more, they said it was to cover the cost of repairing the adaptation." (Disabled consumer, Extra Costs Commission, 2015a: 56)

The high price might be justified by the extra risk, expected higher value of claims and/or more costly and lengthy underwriting process. On the other hand, it could indicate lack of competition and/or a signal from the insurer that it does not want to trade in this segment of the market. Problems accessing insurance cover or a prohibitively high cost can extend beyond the individual to affect family and friends, for example for people with convictions (as noted above) and for consumers with health issues (Box 7.4).

7.3.3 Lack of transparency and trust

Individual insurance customers often struggle to understand why insurers are treating them as high risk. While insurers gather individual details, these are analysed with reference to statistics for groups of people with similar characteristics. The statistical analyses, usually based on the insurers' own customer base, are used to create algorithms into which an individual's data is entered to make the risk assessment. The nature of statistics means that they describe a range of possible outcomes, typically summarised as an average. A single individual is unlikely to be exactly average and so the pricing of their policy may not reflect the exact risk they pose, only that for the insurance segment as a whole.

"Our annual travel insurance is £220 for our family of four. If our daughter had no disability it would be a quarter of this price!" (Extra Costs Commission, 2015a: 34)

"Cover for my son's condition made the insurance more than 5 times what it would have been – even though his condition is extremely unlikely to have caused any additional risk". (Extra Costs Commission, 2015a: 56)

A customer tried to get travel insurance for a five day trip in the UK. They were told by the insurance company that because they take strong painkillers, the premium is £900 instead of £300. (Macmillan, 2014a: 7)

Consumers who are unaware that insurance is based on statistics may feel aggrieved that their individual circumstances are not taken into account. On the other hand, consumer organisations question whether insurers are really basing their decisions on sufficiently relevant statistics. The Extra Costs Commission (2015a; 2015b) suggests that insurers currently do not have adequate information about disability-related risks. It recommended that disability organisations and insurers should work together to fill the gaps. Unlock has established a network of specialist brokers to find insurance quotes for people with convictions and they report that *'the evidence that we have heard from the brokers that do insure these people is that they are better customers, not worse, and that they have a lower claims ratio compared to ordinary customers'* (Stacey cited in Financial Inclusion Commission, 2014: 13). People affected by cancer are also at a loss to understand why they are still charged high premiums many years after successful treatment or why they are denied travel insurance when their doctor has declared them fit to travel (Macmillan, 2014a; 2014b; see also Box 7.4 above).

“Quite a significant number of people have an unspent conviction for the rest of their lives. Earlier this year there was a chap that went on Radio 4’s Money Box to talk about how he is now in his seventies and he has had to disclose his conviction for the last 40 years to insurance companies and he is still paying £50 more a year because of that fact.” (Stacey cited in Financial Inclusion Commission, 2014: 7)

One customer looking for life insurance had been in remission from cancer diagnosed at age 25 for nine years. She was quoted a monthly premium of £329 for £265,000 of life cover on a decreasing term assurance. The insurer will not consider her for reduced premiums unless she is deemed to be at least 10 years cancer free from the date her treatment ended. (NB Life insurance on similar terms for someone who has experienced cancer or another serious illness can be obtained for under £11 a month). (Macmillan, 2014a: 8)

We have seen a case in which a customer has a condition which has a very small chance (1:100) of developing into a specific type of cancer. As a result he has been refused life insurance with three insurers and a broker acting on his behalf has tried 30 different insurers with no success. (Macmillan, 2014a: 8)

The problem is compounded because insurers treat both the algorithms they use and the statistics on which they base decisions as commercially sensitive because they are fundamental to their business model. The ABI has, however, released industry-wide data about the incidence of claims for older people with motor and travel insurance (see section 7.5.3). In the case of a complaint, the Financial Ombudsman Service may also ask a firm to provide information on how it reached a decision. As Box 7.5 demonstrates, this does sometimes reveal statistical evidence being overlooked or used incorrectly.

Box 7.5 Inaccurate application of statistical evidence

Older consumer denied ‘free car insurance’

Mr A in his early eighties bought a new car. He was attracted by an offer which said that he’d receive one year’s free motor insurance with his purchase. But when he bought the car, he was told that the insurance was only available to people aged between 21 and 80. Mr A queries this and the insurer explained that it was a business decision to put this age limit on the free insurance to ‘minimise potential losses’. Mr A thought this was unfair age discrimination and referred the case to Financial Ombudsman Service, who asked the insurer to show them the information it relied on to make the decision to restrict free insurance to people within these age bands. The industry data the insurer used showed that drivers aged 21-25 were a higher risk than drivers in Mr A’s age group of 81-85 and that there was no significant additional risk for older drivers until the age of 86. The Ombudsman decided that Mr A had been unfairly disadvantaged and ordered the insurer to pay for the alternative insurance Mr A had taken out, and a further payment for the trouble the insurer had caused him.

Source: Financial Ombudsman Service (2015b: 6)

Without some explanation of how risk is being assessed, consumers are being asked to take on trust that pricing is fair and that claims will be met. As the research commissioned by the FCA shows (Rowe et al, 2016), that trust may be lacking.

"I just look at our monthly outgoings and there isn't much room for an extra £30 on contents insurance that I'm pretty sure in the majority of cases they'd find a reason not to pay out or it would take weeks on end to get sorted." (Consumer interview, Epsom; Rowe et al, 2016: 24)

"I knew they wouldn't cover my condition [Crohn's Disease] but when I'd taken out the [critical illness] policy I had a read through it and it said they wouldn't cover my Crohn's and any other associated conditions. But what are those conditions? They could say anything is associated, so it's a completely pointless policy as far as I'm concerned." (Consumer interview, Watford; Rowe et al, 2016: 36)

7.3.4 Lack of buy-in to industry guidance

Unlock and the ABI worked together to produce a good practice guide on insurers' approach to people with convictions (ABI, 2014b). Among other matters, it reminds insurers of their duty to ask specific questions; that spent convictions may not be taken into account when assessing risk and the insurer will be committing an offence if it does base a decision on them. The guide also notes that customer awareness of the link between convictions and insurance risk may be low, so it is up to insurers to explain the relevance.

The guidance has been in place since 2011, but it is still commonplace for proposal forms to have questions such as 'have you ever been convicted...?' rather than referring only to unspent convictions. The ABI guidance states that good practice would be to refer to 'unspent' conviction or, failing that, provide extra information to make clear what should be disclosed.

Box 7.6 shows examples of typical wording in use in early 2016 in (pdf-version) proposal forms. There is no reference to spent convictions. Moreover, these forms also typically ask whether, without time limit, the consumer has ever been refused insurance or had a policy cancelled. This puts a person who has previously been refused insurance because of a conviction that is now spent in the impossible situation of being legally entitled to answer 'No' to the conviction question but still being penalised by having to say 'Yes' to the refused insurance question.

Box 7.6: Examples of questions on insurance proposal forms regarding convictions

Home insurance – extract from proposal form

3.1 Have you or anyone who normally lives with you:

- a) Suffered any loss, damage or liability anywhere during the last three years, whether insured or not?
- a) Had any insurance cancelled or turned down or had any special terms applied to your insurance?
- b) Ever been convicted of, or charged with but not yet tried for, any offence other than a driving offence?

Car insurance – extract from proposal form

Have you or any named driver above:

- 1. Had any accidents, losses or claims during the past five years? (regardless of blame and whether reported to the insurer or not)
- 2. Ever been convicted of any offence in connection with any motor vehicle or are there any Garda enquiries or prosecutions pending?
- 3. Had any insurance proposal or renewal declined, policy cancelled or subjected to any increased premium or any excess or special condition?

In evidence to the Financial Inclusion Commission (2015), the Co-Director of Unlock noted that: *‘when it comes to individual firms, I think the ABI guidance ... is not very often followed’*.

“I told an insurer about my conviction and they advised me not to declare it because it was spent and declaring it would mean I couldn’t have home and contents insurance with that insurer. I now believe that if I had made a claim and the conviction came to light it would have probably invalidated my claim.” (Prison Reform Trust and Unlock, 2010: 62)

The problems faced by people with motoring convictions may get worse. Motoring convictions that are spent may still be shown on driving licences. Since 2014, a new system of providing driver details to insurers has been introduced, called MyLicence (ABI, 2014c). Instead of answering questions about driving experience and motoring convictions, the customer gives their driving licence number and the information is collected direct from the Driver and Vehicle Licensing Authority (DVLA). In the process, information about spent convictions may be passed to insurers. While the consumer can opt out of MyLicence, this may mean paying a higher premium (MyLicence, 2016).

7.4 Through a consumer’s eyes: what might good look like?

Not everyone has risks for which they need insurance but, at a minimum, most people would have a need for home contents insurance, homeowners need buildings insurance, drivers require motor insurance and millions would ideally have some form of income protection. So most people have a need for some type of insurance cover and, for them, good would probably include the following features:

- Being able to find cover that meets their needs at a price they can afford.
- Being able to understand what a policy covers and be confident that it would pay out in the situations envisaged.
- Being confident that the price charged is fair, in the sense that it is based on relevant factors.
- The insurer having a straightforward claims process that does not intimidate or demean the claimant.

7.5 What is happening so far?

Support for older insurance customers to find cover and understand how age affects premiums provides a model that could be used to help other consumers who are deemed higher risk or ‘non-standard’ by the insurance industry. The examples identified in this Occasional Paper of what is happening so far are summarised in Table 7.1.

7.5.1 Lack of products

Consumers generally have no absolute right of access to private insurance products, so it will usually be for social policy to determine whether to override market forces and ensure provision in particular areas. An example is the Flood Re scheme described in Box 7.1.

In many cases, non-standard customers may be able to find cover if they know where to look, although they will typically have to pay extra not just because of risk factors but also the higher cost of individual underwriting. An important way to improve consumers’ experience is to signpost them to appropriate sources of cover or brokers who can help. The ABI and BIBA have agreed a non-statutory agreement with the Government (ABI, 2012) which includes providing this type of signposting for older people struggling to find motor and travel insurance.

Under the agreement, where an older person is turned down for motor or travel insurance because of their age, the insurer or broker concerned must refer the person to another source that can provide cover or to a suitable signposting service. BIBA's Find-A-Broker service is recognised under the agreement as a suitable signposting service. BIBA (2016) reports that over the first three years of the agreement 200,000 older people have been directed to Find-A-Broker. Unfortunately, however, the outcomes for those older people are not reported.

The age agreement was made in the context of a specific exception to the Equality Act 2010 which allows age to continue to be used as a discriminating factor across the financial services sector. There is no indication that insurers would consider extending signposting to other areas of insurance. By contrast, BIBA (2014) has called for 'total signposting' across the industry to ensure all consumers can find cover. This is based on the premise that brokers can facilitate policies to meet most needs. BIBA sees signposting as an issue that can be addressed by consumer bodies, the Government and the insurance industry.

However, this might not be straightforward for organisations representing consumers. For example, in its guide to travel insurance, Macmillan (2014b) explains that it no longer signposts to particular insurance providers and brokers because *'feedback on companies varied substantially'* and *'we received many queries and complaints...about pricing, issues with getting cover and the level of customer service'* (p.2). This highlights how organisations that work with consumers considered non-standard by the insurance industry are not equipped to evaluate insurance providers and their products. A partial solution, which Macmillan uses along with other organisations, is to host a forum where consumers can exchange their tips and experiences on finding suitable cover.

Some consumer organisations may move into the market as suppliers in an effort to provide better-tailored products. For example, Age UK has become a supplier of insurance aimed at addressing problems such as age limits (and also provides energy deals). However, Age UK has found that this poses reputational risks if the products are not necessarily the best on the market and become viewed more as ways of generating commission income rather than directly helping their particular constituency of consumers (Ruddick and Macalister, 2016). Investigating Age UK's relationship with an energy supplier, the Charity Commission (2016) issued guidance to both Age UK and the charity sector as a whole, including greater awareness of reputational risk, the need for transparency about commercial arrangements and robust and regular reviews.

Insurers have been working with social housing landlords to provide home contents insurance policies that better meet the needs of low-income tenants. Take-up has so far been disappointing. For example, Aviva has found only 12 per cent of eligible households taking out its tailored product (Financial Inclusion Commission, 2015). Other work has also highlighted the challenge of promoting this type of home insurance to tenants (Chartered Institute of Housing, 2011). Part of the problem may well be that tenants on low incomes with other financial priorities see insurance as a low priority or irrelevant.

7.5.2 High prices

Where insurers have accurately assessed risk, they may be able to justify higher premiums on commercial terms even if this makes cover unaffordable for many. However, there may be a social case for ensuring continued access to cover at an affordable price. This has motivated the creation of the Flood Re scheme (see Box 7.1 above) to ensure access to home insurance for people living in flood-prone areas. The ABI-government agreement on a moratorium on the use of predictive genetic testing (ABI, 2014a) both protects some consumers from being refused cover and helps to ensure that the price of life and health insurances remains affordable.

Consumers with similar needs may come together and use their collective buying power to secure better deals. This may be achieved through collective purchasing schemes, like those used by some consumers to buy energy (Department for Energy and Climate Change (DECC), 2012) or through intermediary websites that bring groups of similar consumers together, having negotiated discounts with providers, as in the case of buying insurance through boughtbymany.com (Box 7.7).

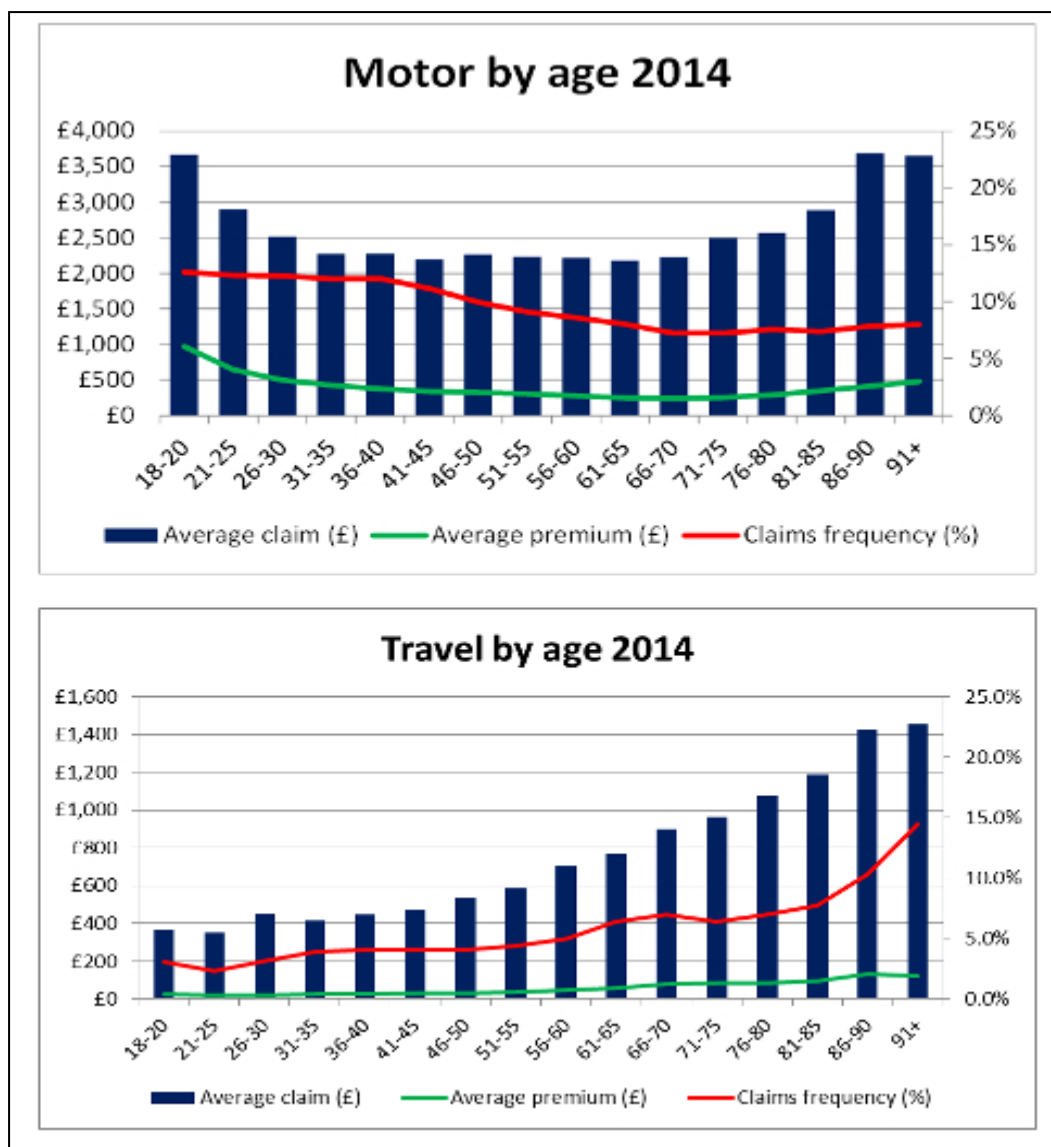
Box 7.7: Collective bargaining power

The website boughtbymany.com (2016) brings together consumers with similar risk factors to use their collective buying power to obtain better deals on insurance. The site covers most types of general, health and business insurance. It claims to secure an average discount of 18.6 per cent on premiums that would otherwise be charged. In early 2016, it had 273 groups of members negotiating deals. Many focus on travel insurance with, for example, 1,162 members in a group for people with Crohn's disease; 57 members in an over-75 age group; and 1,514 in a group for people with diabetes.

7.5.3 Lack of transparency and trust

Given the current lack of transparency about the way insurers determine risk-based prices, it is impossible for consumers or the bodies that represent them to know whether the pricing is fair. The ABI/BIBA non-statutory agreement with the Government (ABI, 2012; ABI 2016a) not only addresses signposting (as discussed in section 7.5.1 above) but also commits the industry to increased transparency by requiring the ABI to publish annually data on how age affects risk and premiums. Figure 7.1 reproduces the most recently published charts. They show a clear link between age and claims and so help consumer understanding that age is a relevant factor in pricing.

While there are no plans to extend this initiative, similar data for other areas of insurance (for example, the correlation between different types of disability, claims and premiums) would improve transparency and trust among consumers (and their representative organisations). They would also provide the opportunity for outside scrutiny to ensure that insurance decisions are based on the most relevant and accurate information.

Figure 7.1: Average claim, premium and claims frequency for motor and travel insurance

(Source: ABI, 2016b; ABI, 2016c)

Table 7.1: Examples of what is happening so far

Issue	What's being done by:				
	Government	Regulators	Firms	Consumers	Others
Lack of products	Flood Re scheme Moratorium on use of predictive genetic tests Signposting older people to motor and travel cover		Flood Re scheme Moratorium on use of predictive genetic tests Signposting older people to motor and travel cover		Age UK insurance products
High prices	Flood Re scheme Moratorium on use of predictive genetic tests		Flood Re scheme Moratorium on use of predictive genetic tests Contents insurance-with rent schemes for low-income households	Bargaining groups formed online	Contents insurance-with rent schemes for low-income households
Lack of transparency and trust	Publishing data about age in relation to motor and travel insurance		Publishing data about age in relation to motor and travel insurance		
Lack of buy-in to industry guidance					

8 Ageing population

In common with many developed countries, the UK's population is ageing (OECD, 2015). In previous chapters, we have considered major social and technological changes that directly cause access issues. By contrast, in this chapter we see how policies in one area can cause indirect and unintended effects on access in other areas. In particular, how policies tackling problems associated with the ageing population have an impact on access to mortgages.

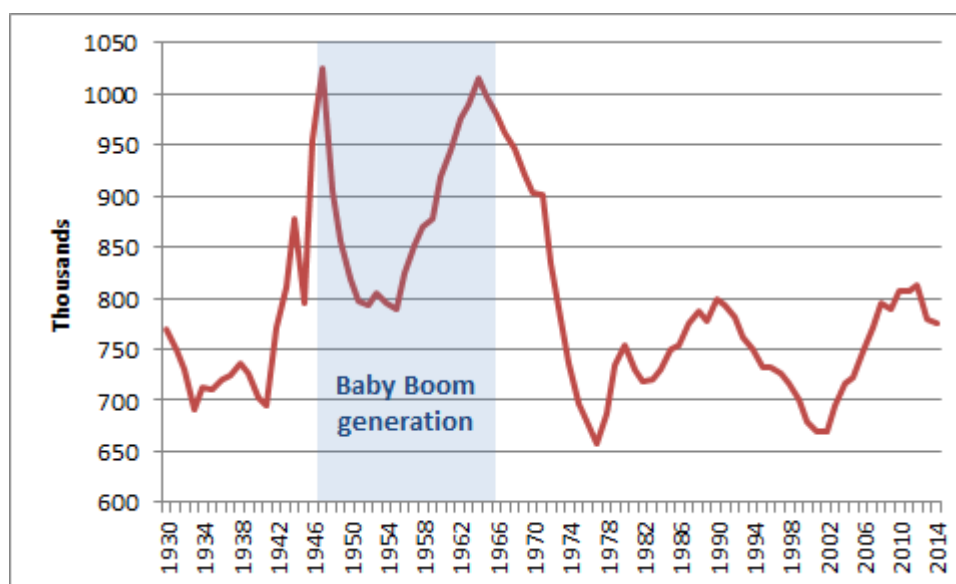
8.1 Context

Age-related access issues arise within a complex synthesis of demographic and social change, the economics of the housing market, consumer behaviour and the impact of regulation.

8.1.1 Ageing and retirement income

In 2014, the UK population stood at 64.6 million, of which 14.9 million (23 per cent) were aged 60 or over, including 12.4 million who had reached State Pension age. By 2039, the number of over-60s is projected to rise to 21.9 million (30 per cent of the population). (ONS, 2015a; Table 4) This is due to both the 'Baby Boom' generation (see Figure 8.1) reaching retirement and the fact that people generally are living longer (Select Committee on Public Service and Demographic Change, 2013). For example, a man reaching age 65 in the early 1980s could on average expect to survive another 13 years; by 2012-14, this had increased to 18.4 years (ONS, 2015e).

Figure 8.1: UK live births, 1930 to 2014



(Source: ONS, 2015e)

Due to these two phenomena, there is an increase in the proportion of older people relative to the working population, putting a strain on the tax and welfare system. Since 1979, successive Governments have implemented policies in response, for example, increasing the State Pension age, abolishing compulsory retirement ages and making age discrimination in the workplace illegal. Private sector employers have also responded to the ageing population (and other factors) by shifting away from defined-benefit pension schemes, where the employer bears the risks of promising workers a certain level of future pension. Instead, they have moved to defined-contribution schemes, which work as savings pots where individuals rather than employers bear the risks and where pension outcomes are uncertain (Lowe, 2013).

Uncertainty about the onset and reliability of future pension income has further increased since April 2015 with the introduction of 'Pension Freedom and Choice' (Taxation of Pensions Act 2014). This allows people aged 55 and over to take savings from their defined-contribution pension pots to use for any purpose and enables greater choice about how to draw out retirement income. The changes have reduced the take-up of secure retirement income (in the form of annuities) at the point when the pension starts, in favour of more flexible, but less predictable income streams (FCA, 2015k).

8.1.2 Spending in retirement

The pattern of expenditure in retirement is also uncertain, particularly the cost of long-term care. Increasing longevity means that, as the Baby Boom generation moves through retirement, the proportion of very elderly will also increase. Between 2014 and 2039, the number of people aged 85 and over is expected to rise from 1.5 million to 3.6 million (ONS, 2015a). The chances of disability increase with age. By 2031 there could be around 1.6 million people aged 65 and over with a disability that limits daily activities, compared with just over 1 million today (Wanless, 2006). The care costs any one person may have to pay vary hugely depending on the severity of need, how care is provided, for how long and eligibility for state help. It is impossible to predict with any certainty whether any one person will need care and how this might eat into their resources (Commission on Funding of Care and Support, 2011a; 2011b). The 2010-2015 Coalition Government passed legislation (Care Act 2014) that was intended to introduce a cap on care costs from April 2016. As part of austerity measures introduced by the subsequent Government, the cap has now been deferred until 2020 (Department of Health, 2015). Even when introduced, the cap is relatively high (planned to be £72,000), will not apply to all the costs faced by someone needing care and not everyone will be eligible.

8.1.3 Housing wealth and equity release

Many older people have benefited from Government policies to promote home ownership, such as: mortgage interest tax relief (which ran from 1969 to 2000 and subsidised the cost of a mortgage); high rates of inflation during the 1970s and, to a lesser extent in the 1980s, that reduced the real value of mortgage debt; and political and economic factors that have tended to support house prices. As a result, home ownership among older age groups is high. 71 percent of those aged 65 and over own their home outright and a further 4 per cent own one with a mortgage (DWP/ONS, 2015: Table 3a). The amount of housing wealth the 65-plus age group owns outright is substantial, estimated at £874 billion (Key Retirement, 2015).

The housing wealth of older generations has been identified as a potential source of additional retirement income (for example, by Pensions Commission, 2005) that could be released either by downsizing (selling up and buying somewhere cheaper) or using equity release products that enable a homeowner to borrow against, or sell, their home while keeping the right to live there. Similarly, housing assets may help with funding under both the existing and new systems for funding care (Commission on Funding of Care and Support, 2011a, 2011b; Care Act 2014). In particular, the Care Act 2014 has, since 2015, enabled care costs paid by local authorities to be met through a deferred charge on a homeowner's property which is paid when the property is eventually sold. These factors, together with the rising proportion of older people and the sizeable housing wealth they command, suggest the potential for growth in both demand for, and supply of, existing and new mortgage-related products aimed at older age groups.

There already exists a market in equity release products which enables homeowners to draw wealth out of their property while keeping the right to live there. Available from 55, but aimed mainly at homeowners aged 65 upwards, it is a currently a relatively small market, accounting for less than one per cent of total mortgage advances of £182 billion a year (PRA/FCA, 2016).

There are two main types of equity release product. Home reversion schemes involve the sale of part or all of the property with the right to stay rent-free or paying a token rent as a tenant for life. These account for less than 1 per cent of equity release sales (Equity Release Council, 2015). Lifetime mortgages account for the rest: the homeowner borrows against the value of the home, usually with interest being rolled up and paid off along with the capital either when the homeowner dies or when they move into long-term care.

8.1.4 House prices and mortgage behaviour

Until 1990, the average house price first-time buyers paid was around 2.5 times their earnings. This reached a peak of 5.2 times earnings in 2004, and was still running at 4.9 times earnings in 2014 (ONS, 2015f: Table 30).

To maintain affordability, borrowers and lenders have responded in several ways. While the average age of first-time buyers has increased only slightly over the last decade from 28 to 30 (FCA, 2016i), a more detailed look at the age breakdown reveals that younger borrowers have been delaying the age at which they first step onto the housing ladder (Belfield et al, 2014), to allow more time to build up a deposit and higher earnings. Secondly, for a time, there was a growing take-up of interest-only mortgages, often with no plan for paying off the loan at the end of its term²³. Another trend to address mortgage affordability has been longer mortgage terms. Five years ago, terms over 25 years accounted for 16 per cent of all new mortgages taken out; by 2014, this had risen to 32 per cent (FCA, 2016i; Council of Mortgage Lenders, 2014).

8.2 Current regulation

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*' (Equality Act 2010, section 20A(2)).

Providing regulated mortgages (and equivalent home purchase plans) and lifetime mortgages are activities subject to FCA regulation (FSMA 2000 (Regulated Activities) Order 2001, article 61). In addition to the overarching principles, including Principle 6 (FCA, 2014b) which states that: '*A firm must pay due regard to the interests of its customers and treat them fairly*', there are also detailed conduct of business rules.

²³ Paying just the interest reduces the monthly cost of a mortgage compared with a repayment mortgage, where the monthly payments cover both interest and capital repayments (so that, provided all the agreed payments are made, the outstanding balance is reduced to zero by the end of the mortgage term).

Particularly relevant is the conduct-of-business rule, MCOB 11.6 (FCA, 2014g) which, where payments are required or expected, requires lenders to assess whether a borrower is likely to be able to afford to keep up the loan repayments. This assessment of affordability must consider the borrower's income, committed expenditure and any future changes to these that *'a firm is, or should reasonably be aware from information obtained during the application process'* (FCA, 2014g, MCOB 11.6.14).

From April 2014, following a Mortgage Market Review (MMR), new responsible lending rules were implemented by the FCA. The responsible lending rules set out to prevent a return to poor lending practices seen during the run up to the financial crisis, by requiring lenders to

- Assess affordability on the basis of the borrowers verified income, credit commitments, essential expenditure and basic quality of living costs;
- Take into account known or likely future changes to income and expenditure;
- Consider the effect of future interest rate rises;
- Not assess affordability on the basis of self-certified income or house price inflation; and
- Only grant an interest-only mortgage where the customer has a credible repayment strategy.

The FCA recognised that the introduction of these rules might impact some existing borrowers and restrict their ability to refinance or switch to a more competitive deal. To mitigate this, FCA rules do not require an affordability assessment in certain circumstances where an existing customer wants to make a change and is not borrowing any more money.

UK legislation and FCA rules embed relevant European legislation. This includes the Mortgage Credit Directive (Council Directive 2014/17/EU). The FCA's rules implementing MCD came into effect from March 2016. The Directive does not apply to the great majority of lifetime mortgages.

8.3 Issues

This section illustrates the type of access problems that consumers may experience because of the combination of their age and the way indirect effects of policies that address the ageing population impact on the risk assessment inherent in mortgage applications.

8.3.1 Varied application of the Equality Act

The risk assessment in the mortgage application relies mainly on the individual borrower's personal factors (their income and existing commitments, and how these might change). Despite this, our analysis of 78 mortgage lenders listed in Moneyfacts (2016) shows that 60 per cent of mortgage lenders set a blanket upper age limit beyond which they will not allow the term of their mortgages to run (Table 8.1).

FCA rules do not set any age limits and these policies are often a reflection of the lenders current credit risk appetite and operational preferences. As a result, the age limits differ from one firm to another and only 15 of the lenders had no limit at all. However, this does seem to be an area of change, with a small increase in the number with no limit during the first half of 2016.

Table 8.1 Age limits for residential mortgages in early 2016

Age limit	Percentage of firms in category:		
	Banks	Building societies	Other
65 to 69	18%	0%	0%
70	32%	13%	22%
75	36%	36%	67%
76 to 79	0%	4%	0%
80	0%	9%	0%
85	0%	9%	11%
Retirement age	5%	4%	0%
No limit	14%	26%	0%
Total (no of firms)	22	47	9

(Source: compiled by the authors from data in Moneyfacts (2016)).

The qualitative research on Access commissioned by the FCA (Rowe et al, 2016) shows that consumers may perceive an upper age limit as arbitrary if they believe they have sufficient secure income to be able to afford the loan.

“They said they wouldn’t give me a mortgage, despite being for only 25 per cent 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: 25)

Analysis of a sample of its cases by the Financial Ombudsman Service suggests that firms, as well as consumers, may at times be confused about the practical implementation of the Equality Act 2010. Box 8.1 provides some examples.

Box 8.1: Example of an age-related access issue**Lender insists on 'compulsory retirement age'**

Mr I, in his thirties, worked in the Armed Forces. He applied to his mortgage lender for new borrowing to move to a bigger house and asked for an extension to his existing mortgage term to make sure that the repayments stayed affordable. The lender refused to extend the term because this would have taken Mr I past the age of 60, the compulsory retirement age for the Armed Forces. Mr I explained that he intended to continue working beyond 60 and pointed out that people in different professions changed job over the course of their mortgage term. He also pointed out that his State Pension age was 67, so he expected to work until then. The lender still turned down the application. Mr I felt he had no choice but to move to a different lender that was willing to offer a longer term and had to pay an early redemption charge to redeem his existing mortgage. Mr I brought his complaint to the Financial Ombudsman Service, who noted that the lender had flexibility in their lending criteria and that it lent to people up to age 70 unless the customer said they were retiring sooner. The Financial Ombudsman Service told the lender to reassess the application based on when Mr I had said he was planning to retire and, if the application would have been successful, it should refund half the early repayment fee and refund any fees paid to set up the new mortgage with another lender.

Consumers unable to take advantage of additional lending due to age

Mr and Mrs N had a mortgage with flexibility that allowed them to withdraw up to £75,000 from the loan at any time up to their 75th birthdays. When they were both 68, they asked to borrow £15,000 from their mortgage to carry out some home improvements. But they were told that the lender's new rules meant that that type of borrowing was no longer available to anyone over the age of 68. Mr and Mrs N told the Financial Ombudsman Service they had only chosen this particular mortgage because of the 'drawdown' facility. Following the Ombudsman's involvement, the lender agreed to look again at whether it could offer additional borrowing as an 'exception' to its usual rule. The lender decided Mr and Mrs N could have the facility up to the age of 75 as originally agreed and made a payment for the inconvenience caused.

(Source: adapted from Financial Ombudsman Service, 2015c: 12, 17).

These Financial Ombudsman Service cases suggest there is a need for firms to communicate better with customers who are turned down to make clearer whether age was a factor in the refusal and, if so, the main reason(s) why age is relevant and, in particular, the rationale for any upper age limit.

There is no data on the scale of issues about how the Equality Act is interpreted. The Financial Ombudsman Service (2015c: 1) notes that: *'As a service, we don't receive a large number of complaints from people who feel that they've been unfairly discriminated against because of their age. This might be because we only see problems where consumers and businesses haven't been able to resolve things directly – many issues will of course be sorted out without ever coming to us'*. There is also no way to know how many customers are put off even applying when they read on a firm's website, in its literature or in a comparison site listing that an upper age limit applies. However, as the population continues to age, it seems likely that the prevalence of this issue may grow.

8.3.2 Difficulties assessing risk

The main risk with most mortgages is that the borrower becomes unable to afford the repayments, although this is not an issue with lifetime mortgages as usually no periodic payments are required. The FCA's regulations set out the type of information lenders should consider when they make an affordability assessment. The inclusion of *future changes* in income and committed expenditure (FCA, 2014f, MCOB 11.6.14) is challenging, especially where the mortgage term would extend into retirement or the applicant is already retired. It has become more difficult with the introduction of Pension Freedom and Choice and the deferral of measures that would have provided some cap on care costs. The lender will typically need to consider questions such as:

- If the borrower is still working but the mortgage extends into retirement:
 - is the customer saving for retirement?
 - is the customer likely to maintain that saving?
 - will the saving provide a secure retirement income?
 - is the customer likely to withdraw their savings before retirement?
- If the borrower is already retired:
 - does the customer have a secure income?
 - if not (e.g. they are using drawdown), how might the income vary (including impact of lump sum withdrawals)?
 - if working during retirement, when might earnings stop or fall?
 - is the customer likely to incur care costs before the mortgage ends?
 - is the customer likely to lose mental capacity before the mortgage ends?

Making loans that extend into retirement or to already-retired people is not necessarily riskier (Building Societies Association, 2015) and, on its own, does not inevitably cause an access issue. However, the Council of Mortgage Lenders (Council of Mortgage Lenders, 2015) notes that its members may be inclined to take a cautious approach to extending loans to people in these situations because the members feel they '*face uncertainty in terms of what a future regulatory or ombudsman perspective might be*' (p.16) where customers default because of a post-sale change in their circumstances. Additionally, it has highlighted that mortgage advice alone may be inadequate for decisions about mortgage borrowing into or in retirement. It has suggested that the remit of the Pension Wise guidance service could be extended to give more holistic information and support across-retirement issues and that mortgage advisers may need to have more holistic expertise in future (CML, 2015).

8.3.3 Lack of product flexibility

As we discuss in section 8.3.4, there is a lack of evidence about consumer demand for mortgages in retirement. However, one group of older people that often do need a new mortgage are borrowers who took out, or switched to, an interest-only mortgage in the past but have no plan for repaying the capital (see section 8.1.4) and whose mortgage is now coming to the end of its term. Box 8.2 illustrates the sort of access problems faced by some of these customers, as reported by the Financial Ombudsman Service.

Box 8.2 Access problems experienced by interest-only mortgage customers**Interest-only term extension turned down**

Mr and Mrs K took out an interest-only mortgage. To make sure they'd be able to repay the capital amount at the end of the loan, they also took out endowment policies. But these didn't perform well and so they decided to sell them and used the money to invest in some buy-to-let properties. When they were approaching the end of their interest-only mortgage term, Mr and Mrs K asked their lender for a five-year extension. But the lender refused as both Mr and Mrs K would be over the age of 75 at the end of the additional five years. When the Financial Ombudsman Service looked into what had happened, it could see that age wasn't the main reason the lender turned down the request for an extension. The lender was more concerned about how Mr and Mrs K would repay the loans – they would have needed house prices to rise, which couldn't be guaranteed. The Ombudsman understood why the lender was concerned. Having considered all the circumstances of the case, the Ombudsman did not think the lender had treated Mr and Mrs K unfairly.

Consumers facing financial hardship due to lack of flexibility on interest-only mortgage

Mr and Mrs L were both made redundant from their jobs and had two mortgages on their home. The first mortgage was paid through Pension Credit payments but, because they'd lost their jobs, they couldn't afford to make payments on the second mortgage. The second mortgage was an interest-only deal and, because the lender didn't offer this product to consumers over the age of 65, it insisted the mortgage had to be repaid in full before Mr L reached his 65th birthday. This meant that their monthly mortgage payments doubled and arrears quickly built up. But they couldn't sell the property to pay off the loan as house prices remained low in their area. The Financial Ombudsman Service worked with the lender and Mr and Mrs L to put a repayment plan in place. The lender agreed to extend the loan past Mr L's birthday if he was fully retired and on a guaranteed income which enabled repayments to be made at their existing level. Mr and Mrs L were able to stay in their home while they found a way to improve their financial situation.

(Source: adapted from Financial Ombudsman Service, 2015c: 15)

Based on data for end-2011, the FCA (2013c) has estimated that 2.6 million interest-only mortgages will become due for repayment over the 30 years to 2043. In 10 per cent (260,000) of these, the borrower has no plan for paying off the capital. Council of Mortgage Lenders (2015) data suggests that by end-2014, this had fallen to a total of 1.9 million interest-only mortgages outstanding. However, using results from a more recent but smaller scale survey, Citizens Advice (2015b) puts the figure higher, estimating that, out of a total of 3.3 million interest-only mortgage-holders, 934,000 have no plan to pay them off and so risk having their homes repossessed. The FCA (2013c) research found that borrowers who did have a plan in place were often overly optimistic about their ability to pay off the capital in full. The reduction in the interest-only back book since then is encouraging but this remains a shared problem and borrowers must engage with their lenders now to reduce the risk of not being able to repay their mortgage in years to come.

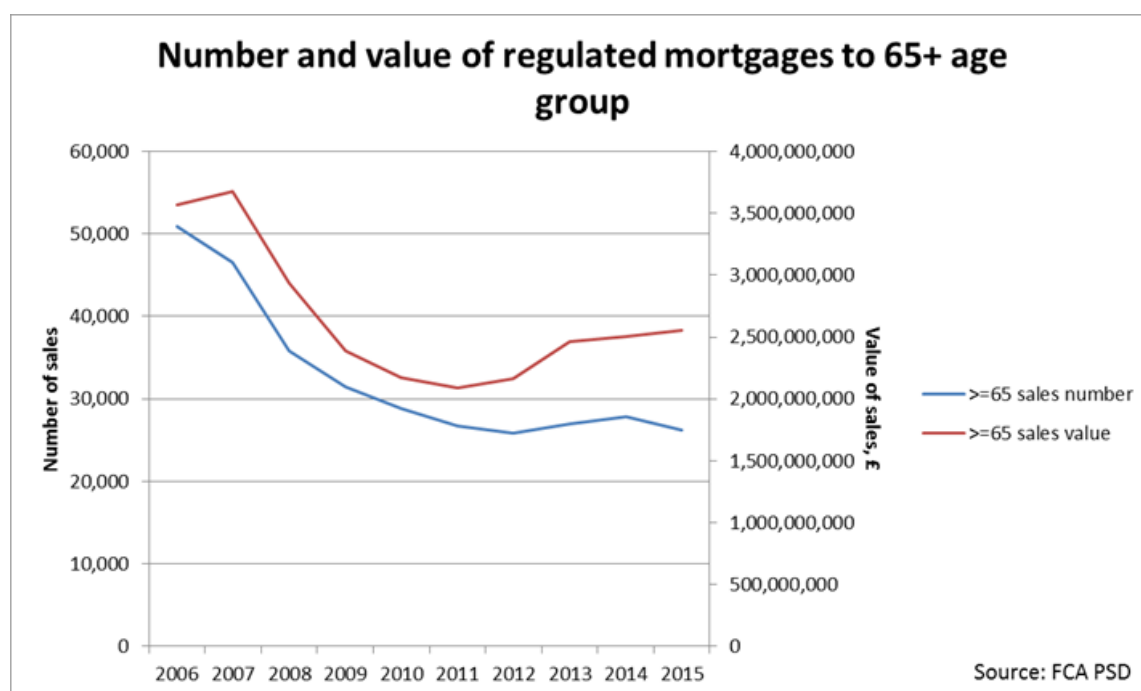
The FCA has already provided guidance (FCA, 2013d) to the mortgage industry on how to treat customers fairly when considering interest-only mortgages. It suggests that firms contact customers early and frequently to prompt them to take remedial action. Lenders report a low response rate to their contact. However, 86 per cent of those who responded had a repayment strategy, and those who did not appeared responsive to making changes (such as switching to repayment terms, overpayments and term extensions) (CML, 2015). The FCA reports that contact is ongoing and that lenders are refining their contact strategies to maximise response rates. The FCA has also identified a non-exhaustive list of the sort of remedies that might be available to customers either before, or at the time, that their interest-only loan matures. These include switching to a repayment mortgage, extending the term and making overpayments, but all subject to the affordability test and potential issues that raises (section 8.1.4).

Another possibility could be that the interest-only mortgage changes into a lifetime mortgage with interest rolling-up, which would be repaid along with the capital when the borrower dies or moves into care. Ultimately, mortgages could even be designed from the outset to have this type of built-in flexibility, allowing housing wealth to build up and then be drawn down as an individual moves through different life-stages and events. However, the industry (CML, 2015; BSA, 2015) see barriers to this type of innovation, particularly because the FCA currently has different conduct of business rules for traditional mortgages and lifetime mortgages. This impediment is reinforced by the Mortgage Credit Directive (Council Directive 2014/17/EU) which applies only to traditional mortgages and very few lifetime mortgages.

8.3.4 Demand-supply questions and barriers to downsizing

As noted earlier, successive Governments see housing wealth as a potential source of funds for consumers to boost retirement income and meet care costs, which suggests a potential demand for financial products to meet these needs. At present though, the equity release market is small. Mortgage lending to people who have already retired is on a similar small scale, accounting for just £1 billion in 2014 or 0.5 per cent of total new mortgages. Mortgage lending generally declined sharply after the Global Financial Crisis and, in line with that, Figure 8.2 shows that lending to the over-65s fell steeply after 2007 in both value (right-hand scale) and number (left-hand scale). The volume of sales to the 65+ age group started to flatten out around 2010-11, while value has shown some increase.

Figure 8.2: Mortgage borrowing by customers aged 65 and over



(Source: FCA 2016i)

There is a lack of firm evidence to untangle whether this generally low level of lending to older age groups is due to a reluctance on the part of lenders to supply loans (for example, due to perceived risks involved in lending to older consumers and a focus on rebuilding business balance sheets after the Global Financial Crisis) or a lack of desire to borrow among older consumers (Box 8.3).

Box 8.3 Attitudes towards borrowing among retired consumers

The FCA (2014d) Consumer Spotlight survey finds that the retired consumer segments are among the most careful with their money and the least likely to borrow, as the following extracts show.

Retired with resources

Overview: Mostly retired homeowners with no mortgage, living comfortably on income from pensions and savings. Risk-averse and careful with their money, this group prefer saving to spending and rarely go overdrawn or take on debt. They have high savings and a range of financial products. Optimistic and confident, they tend to be well informed and keep abreast of changes in the economy.

Loans and other sources of credit: Many have credit cards but are seldom in debt. This segment has high credit card ownership (65 per cent vs. 48 per cent of the total population and 33% of *Retired on a budget*). However, the outstanding balance is most often less than £50, and balances are almost always paid off each month. Only 19 per cent have a loan vs. 26 per cent of the total population.

Retired on a budget

Overview: The vast majority of this group are over 65. More than half live alone, with 38 per cent widowed and 16 per cent divorced. They have low incomes, with an even split between home ownership and renting from local authorities. They are careful with their money and tend not to switch providers. They have limited access to information and services and prefer to use cash or cheques to pay bills.

Loans and other sources of credit: Little use of loans and credit. They are the segment least likely to have a loan (8 per cent vs. 26 per cent of the total population), and only 33 per cent have a credit card (vs. 48 per cent of the total population). Half of these have a balance lower than £50, and all are lower than £25.

A survey of people aged 55 and over by an equity release provider (more2life, 2015) asked respondents what they would do if they had an income shortfall in retirement. The most common answers were to cut spending or sell their house, again suggesting a possible lack of demand for mortgage borrowing in retirement. However, in a different survey (Legal & General, 2015), one-third of older homeowners reported they had considered downsizing in the last five years but only 7 per cent actually went ahead and did so. A variety of barriers to downsizing were identified, including lack of suitable housing, high asking prices and a hefty stamp duty bill. Downsizing is the most straightforward way to release equity from housing but, if homeowners are reluctant to sell, this might stimulate demand for financial products, such as mortgages, as an alternative.

8.4 Through a consumer's eyes: what might good look like?

As we have seen, mortgages are embedded in a complex nexus of age-related social, economic and political factors. This makes it difficult to draw out cleanly what might look good from the consumer perspective, but it is likely to have the following features:

- Being protected from taking on unaffordable or unsustainable debt.
- Having a range of viable options to suit different situations, including remortgaging, downsizing and equity release.
- Clear explanations if turned down and signposting to other lenders or options.
- Having access to holistic guidance and advice that considers borrowing in the context of other circumstances and goals, such as pensions, possible future care needs and inheritance.
- Access for consumers (and their carers) to trusted help to manage financial matters if mental capacity fails.

8.5 What is happening so far?

The complex issues related to an ageing population illustrate why access problems can so easily fall between the cracks, with no one agency clearly responsible. Nevertheless, some small, disjointed steps are being taken to improve consumer outcomes, and the following sections describe some examples. These are summarised in Table 8.2.

8.5.1 Varied application of the Equality Act

There may be good reasons why financial firms take varied approaches to the way they translate the Equality Act into practice, for example, commercial decisions about the level of risk each firm is willing to take. Provided firms' practices conform to the requirements of the Act, consumers whose applications are turned down have not necessarily been treated unfairly. Even so, it would be helpful for consumers to understand broadly why they have been refused, know whether other firms would accept their business and, if so, who those firms are.

Since 2012, through the Association of British Insurers (ABI), the insurance industry has adopted a voluntary agreement which aims to give older consumers that support for motor and travel insurance (see Chapter 7). There could be potential for a similar agreement in the mortgage industry, though this does not seem to have been explored so far. The trade body for building societies, the Building Societies Association (BSA) has said that it intends to publish a consumer guide aimed specifically at older borrowers, including information on maximum age limits (BSA, 2015). Both the BSA and the Council of Mortgage Lenders have said they will keep their members' policies on maximum age limits under review (BSA 2015; CML, 2015).

In its recent market-wide thematic review of responsible lending (to be published), the FCA identified that the majority of firms' policies showed they were prepared to offer mortgages with terms that extend beyond a customer's expected retirement age. The FCA found that over the period of the review, large lenders in particular set their maximum age at 70 or 75. The FCA responsible lending rules do not set any age limits and these policies are often a reflection of lenders' current credit risk appetites and operational preferences. Through its review of individual lending decisions, the FCA found that in practice lenders were following their policies and lending to older borrowers. Even where firms had maximum age criteria, the FCA saw some firms making exceptions for existing customers where this was in their borrower's best interests. The FCA found smaller building societies in its sample had more flexible underwriting which may allow customers exceeding larger lenders maximum age limits to still access the market.

8.5.2 Difficulties assessing risk

The Building Societies Association (2015) reports that it is working with the insurance industry to try to find insurance-based solutions to help older borrowers. These might include some form of mortgage indemnity policy to protect the lender if the borrower becomes unable to maintain their loan because of a change in circumstances. The BSA also refers to long-term care insurance to reduce the uncertainty over potentially large expenditure on care costs arising later in the mortgage term. However, while it was intended that care reforms might encourage pre-funded care insurance to develop (Commission on Funding of Care and Support, 2011), insurers appeared reluctant to re-enter this market, which collapsed in 2010 due to a range of factors including difficulty underwriting the risks and the high cost to consumers (Lloyd, 2011; ABI, 2013). With the deferral of the care measures until 2020 (Department of Health, 2015), any revival of pre-funded care insurance may be even more distant.

There are examples of innovation among individual firms, as Box 8.4 shows.

Box 8.4: Overcoming the difficulties of assessing risk in relation to older mortgage borrowers

Vernon Building Society (2016) has an interest-only retirement mortgage that offers a discounted rate to borrowers who register a lasting power of attorney. This reduces a risk for the lender by ensuring that arrangements are in place for a named person to take over if, in future, the borrower loses mental capacity and is unable to manage their financial affairs.

8.5.3 Lack of product flexibility

The FCA has carried out substantial thematic work to understand the scale of the problem with interest-only mortgages and published guidance on how firms could engage with these customers and the options they might offer (FCA 2013c; FCA, 2013c).

The FCA has also responded to the concern that an existing requirement to assess affordability was preventing providers from offering consumers the option of initially paying the interest on their lifetime mortgage rather than allowing it to roll-up. It plans to consult on removing this requirement where the product is designed so that the consumer can trigger conversion to interest roll-up at any time. Ahead of this consultation, the FCA has published a ‘modification by consent’²⁴; allowing firms to choose an alternative set of requirements that remove the need to assess affordability for these particular products. The hope is that this streamlined process will allow consumers to benefit more quickly from wider access to a form of lifetime mortgage that will give them more control over how they use their equity. Again, individual firms are exploring new approaches (Box 8.5). The FCA’s Project Innovate may encourage further new developments.

Box 8.5: Flexible products for an ageing population

Marsden Building Society (Equity Release Supermarket, 2016) has launched a suite of mortgages for borrowers aged 55 and over with a maximum 30-year term and maximum end-of-term age of 85. These products are designed to bridge the gap between the end of a traditional mortgage and the borrower reaching the age when a lifetime mortgage or other equity release product would be viable. It’s “Older Borrower” Mortgage scheme provides an initial tax-free lump sum cash release, and repayments can be just interest or capital and interest.

8.5.4 Barriers to downsizing

Downsizing is important as a potential alternative to traditional or lifetime mortgages in retirement. The cost of downsizing, including tax, is one of the factors that may deter older consumers from taking up this option (more2life, 2015). In December 2014, Stamp Duty Land Tax was reformed and changed from a ‘slab system’ where a given rate of tax applied to the whole property purchase price to a tiered system with different rates applying to successive bands. For the majority of homebuyers, this has reduced the amount of tax they must pay when they purchase a property and thus reduces one of the possible barriers to downsizing. (Scotland also has a similar tiered system for its equivalent tax, the Land and Buildings Transaction Tax).

Consumers’ concerns about releasing equity or downsizing can also be tied up with their wish to bequeath property. In the Summer 2015 Budget, the Chancellor announced a new main-residence Inheritance Tax relief (or ‘Family Home Allowance’) that aims to reduce the burden of Inheritance Tax by making it easier to pass on the main family home to direct descendants (children, stepchildren, adopted children, foster children and grandchildren) without a tax charge (HM Treasury, 2015b; HMRC 2015). Importantly for downsizing, if the main home is sold or downsized on or after 8 July 2015, the Family Home Allowance will still be available to the homeowner, where non-housing assets up to an equivalent value are passed to direct descendants (Blackmore, 2015; HM Treasury, 2015b; HMRC, 2015).

²⁴ https://www.the-fca.org.uk/modification-consent-hybrid-lifetime-mortgage?field_fcasf_sector=unset&field_fcasf_page_category=unset

Table 8.2: Examples of what is happening so far

Issue	What's being done by:				
	Government	Regulators	Firms	Consumers	Others
Varied application of Equality Act 2010		FCA thematic review of responsible lending			
Difficulties assessing risk		The FCA plans to consult on removing the affordability requirement where the mortgage product is designed so that the consumer can trigger conversion to interest roll-up at any time. Ahead of this consultation, a 'modification by consent' has been published, allowing firms to opt for an alternative set of requirements that dis-apply the need to assess affordability for these particular products.	Product innovation e.g. reduced cost for mortgage customers who register a lasting power of attorney		
Lack of product flexibility		Assessment of scale of interest-only mortgage problems. Guidance to industry FCA Project Innovate	Product innovation e.g. bridge between traditional and lifetime mortgages		
Barriers to downsizing	Tax changes				

9 From issues to solutions

This Occasional Paper has used five major social and technological trends as a lens to examine the types of access issues that consumers face. It does not attempt to cover every possible type of access issue. However, the examples described in Chapters 4 to 8 offer a fair representation on which to base an understanding of how issues arise and the types of solution that might address them. This enables us to construct a taxonomy of access issues that can be applied more widely than just the examples in this Occasional Paper and so goes some way to providing a generalised blueprint for tackling access issues. Factors related to opportunity cost and prioritisation would need to play a significant role in debates around these questions.

Building on the analysis in this chapter, we have identified a series of *Questions to explore* which we, the authors, consider would help stakeholders move towards creating solutions to access issues.

9.1 Identifying the issues

A prerequisite for any issue to be tackled is that it becomes visible. Consumers, as the people directly affected by access issues, are typically best placed to spot where there is a problem. Their experiences surface in a variety of ways, for example: through complaints to firms and specialist bodies, such as the Financial Ombudsman Service, through contact with, and surveys by, consumer bodies, by writing to Members of Parliament, talking to consumer journalists, by raising concerns with the FCA and by identification from FCA research.

The evidence of access issues is often piecemeal, vivid in terms of case studies, but lacking a sense of scale. The Financial Ombudsman Service is a rich source of both qualitative and quantitative data but only from consumers who have complained and persisted in their complaint as far as the Financial Ombudsman Service. This inevitably provides only a partial picture and the Financial Ombudsman Service does not routinely separate out cases involving access. Additionally, many consumers who cannot get access to a product or service may well not even think they are eligible to complain about something they do not have.

Firms are also well-placed to see access issues, but only where consumers have made contact and only if firms are required, or have decided, to capture this data. Moreover, unless they have a commercial or reputational motive, firms are less likely than consumer bodies to collect data on 'hidden consumers' who face barriers that prevent them engaging with firms or who have opted out of the market, such as the consumers in Chapter 4 who lack the equipment or skills to go online or simply have no interest in the internet.

Thin data about the prevalence of an issue is sometimes used as a reason for rejecting or deferring action to resolve it. Consumer bodies are typically under-resourced (Coppack et al, 2014; Dayagi-Epstein, 2007)²⁵ and understandably often more focused on solving the immediate problems faced by the individuals who come to them than in capturing, collating and using data.

²⁵ Dayagi-Epstein (2007, p.228) in particular notes that for consumer organisations: 'The shortage of funding is especially detrimental due to the heavy reliance of competition proceedings on economic evidence, which leads to substantial costs incurred as a result of the necessity to instruct economic experts to collate and analyse information'.

It has been claimed that the abolition of the statutory body Consumer Futures (previously known as Consumer Focus and the National Consumer Council) – whose remit was specifically oriented to research and advocacy (Consumers, Estate Agents and Redress Act 2007, sections 3 and 6) – has exacerbated the evidence-building problem²⁶. In the absence of an adequately resourced centralised consumer body, or increased funding and expertise support for individual consumer organisations, there is a need for official bodies, such as the FCA, to step in and proactively research the scale of emerging and potential access issues.

9.2 Driving change

While consumers are often best placed to spot the issues, they usually lack power on their own to drive change. Depending on the nature of the issue and willingness to act, change is usually driven by firms either directly or through their trade bodies, or by regulators or the Government.

9.2.1 Consumers

The qualitative research on Access commissioned by the FCA for this Occasional Paper (Rowe et al, 2016) reveals how consumers often feel powerless in the face of access issues. They have some scope for action, but it is limited. For example, where an individual consumer is turned down for credit because of a ‘thin file’ (see Chapter 6, section 6.3.3), they may be able to remedy this over time by taking a credit-builder credit card. There may be a tension here between what consumers are expected to know, find out for themselves or learn through financial education initiatives and what firms are willing to provide in terms of individualised help, advice and information that is tailored to the specific consumer and particular ‘access event’. However, there are doubts that any amount of financial education can adequately equip consumers to deal with products and services that are diverse, complex and rapidly changing, particularly when consumers’ behavioural biases tend to interfere with rational decision-making (Willis, 2008). Rowe et al (2016) reveal a picture where only the most determined, experienced and persistent consumers stand a chance of carving a way through the ‘maze’, ‘fog’ and ‘void’ of access issues. While recognising that educating consumers is a positive step, there are limits of what can be expected of everyday consumers who engage, or try to engage, with financial services in the UK today. By tweaking the supply side of the market there are instances where consumers will be better able to take responsibility for themselves.

“We’d like to see a lot more information and training to staff to know what they can tell someone about how they can go away and improve their credit score because very often people’s circumstances would enable them to access credit but their score stops them.” (Expert interview; Rowe et al, 2016: 35)

Consumers may strengthen their power to drive change by forming groups and so gaining enough buying power to bring down the price of a product. The internet can help to bring these consumers together through sites, such as boughtbymany.com (see Chapter 7, Box 7.7).

²⁶ For example, in a debate on the order to abolish the National Consumer Council (NCC), Baroness Oppenheim-Barnes commented: ‘When one looks back over the years, when we started ... the NCC...things were done in great detail for the benefit of consumers and to a very high standard by both those organisations, and no one is sure what exactly is replacing them’ and Lord Borrie remarked: ‘Being in charge of the Office of Fair Trading for many years, I remember that the pieces of research done by the National Consumer Council were extremely valuable to us. They were thorough and done from a consumer angle that enabled one to counter the other angles that the Government were always getting from the CBI, the Institute of Directors and so on. There needed to be a consumer voice, and the NCC gave it’ (House of Lords Deb (2013-14) 752, col 1734-1737).

The insurance sector provides an example of how firms may look to consumer groups to provide solutions. The British Insurance Brokers Association (BIBA) has called for consumer organisations to contribute to 'total signposting' so that consumers turned down by one firm are directed to others or to brokers (Chapter 7, section 7.5.1). In some cases, consumer bodies themselves become providers or intermediaries for products that are adapted to the needs of particular consumer groups. However, these approaches are not without problems. Macmillan (2014b) explains that it no longer signposts people living with or beyond cancer to travel insurers or brokers because of concerns about the service provided. For Age UK, the reputational risks of providing its own insurance policies (that address the problem of age limits but in other respects may not necessarily be the best on the market) have recently been highlighted. Even when commission on product sales funds Age UK's charitable aims, this may be seen to conflict with providing a good deal to customers (Ruddick and Macalister, 2016).

Consumers also have some statutory and legal powers, but these too are limited. For example, consumer bodies can apply to be recognised as 'super-complainants' who can make complaints to the FCA on behalf of groups of consumers (The Financial Services and Markets Act 2000 (Designated Consumer Bodies) Order 2013. SI 2013/3191)²⁷. In some areas, consumers can collectively pursue claims through the courts, for example, using new rights to bring opt-out claims²⁸ for redress where competition law has been breached (Consumer Rights Act 2015, Schedule 8). However, not many consumer bodies have the capacity and resources to take on these roles.

9.2.2 Firms and trade bodies

Individual firms are most likely to act to address access issues if this gives a direct commercial advantage or a good fit with their corporate social responsibility policies. In this vein, Chapter 4 highlights several initiatives by firms to promote digital access, such as Barclays Digital Eagles and Lloyds Digital Champions. Delivering services online is cheaper than maintaining branch networks, so there is a commercial as well as community driver to helping more consumers get online and improve their digital skills. Sections 8.5.2 and 8.5.3 of Chapter 8 noted some innovations in the market for older mortgage customers, which are likely to become more abundant given that this is a growing potential market in an ageing population.

Firms may drive change collectively through trade bodies. These vary in size, influence and purpose, but many trade bodies promote good practice across their industry and some operate systems of voluntary self-regulation. Their effectiveness in delivering change depends on a variety of factors, such as their members' market share and the willingness of members to comply with trade-body recommendations. For example, the Association of British Insurers, which represents over 90 per cent of the insurance industry (ABI, 2014d), has negotiated a number of industry agreements. In some cases these are mandatory for its members, such as a moratorium on using predictive genetic testing results. Others are statements of good practice that may not always seem to have widespread member buy-in, as with the approach to consumers with convictions discussed in Chapter 7.

Large firms and powerful trade bodies can be drivers of high industry standards and good consumer outcomes, but the same power is also used to represent industry interests. Where firms' interests conflict with those of consumers, firms have the superior lobbying power. For example, it is estimated that in the USA the ratio of business to consumer body resources is 300:1 (Mayer, 1989, cited in Dayagi-Epstein, 2007). One interpretation of the impact of this inequality is seen in the exemption from the Equality Act 2010 that the industry secured for financial services, enabling them to continue to use age in risk assessment and pricing, despite lobbying by age charities (Age UK, 2012). The Financial Services Consumer Panel (FSCP, 2015) has suggested that the imbalance of power between firms and consumers might be reduced through changes to legislation to require firms to have a duty of care towards consumers.

²⁷ There are four 'designated consumer bodies' under this Order: Citizens Advice, Consumer Council of Northern Ireland, Which? and The Federation of Small Businesses (HM Treasury, 2013).

²⁸ An opt-out claim is a collective claim made by a representative on behalf of all people in a defined group. Instead of having to agree to join the action, each member of the group is automatically bound by the judgment and included in the settlement unless they have notified the representative that they do not wish to be.

9.2.3 Regulators

Regulators, such as the FCA, the Payment Systems Regulator, the Information Commissioner and the Equality and Human Rights Commission have the power to make firms change their behaviour, but only where this is within their remit.

Chapter 2 described what the role of the FCA could be and the potential scope of the FCA's responsibilities and powers for access issues, dividing the landscape into identifying, restricting, promoting and safeguarding access.

The FCA is already identifying access issues to some extent. However, as discussed in section 9.1 above this could be extended to include more proactive involvement in gathering evidence on the scale of problems. If a lack of evidence from consumer organisations is a reason not to address an issue, it could be argued that the regulator (and trade bodies and the Government) dedicates more resource to gathering information and evidence about relevant consumer issues to demonstrate the detriment needed for thorough regulatory consideration or action.

Driving change: Question to explore

Q. *Because robust evidence is a prerequisite for regulatory action, but consumer organisations lack data gathering resources, could the FCA be more active in understanding the scale and detriment caused by access issues, for example, working in new ways with consumer organisations to gather more robust data, and/or commissioning new research?*

In Chapters 4 to 8, we discussed several situations in relation to the example access issues where regulations specifically address access in order to restrict it. Perhaps the most obvious example is the anti-money laundering and preventing the financing of terrorism regulations discussed in Chapter 5. The FCA has a statutory objective to enhance the integrity of the UK financial system, where integrity includes it '*not being used for a purpose connected with financial crime*' (Financial Services and Markets Act 2000, s1D(2)(b)). Another example is the affordability rules in the FCA Handbook (FCA, 2014g, MCOB11.6) that aim to protect consumers from taking on unsustainable debt (Chapter 8, section 8.2). This highlights how sometimes other considerations may legitimately reduce regulators' ability to act as drivers of changes to promote access. Nevertheless, regulators may be expected to have an interest in ensuring that such regulations are not misused or misinterpreted by firms to restrict access for other reasons.

More generally, the FCA's role in promoting access is less clear cut. Chapter 2, section 2.4.3 demonstrates how in practical terms this may be achieved through collaboration with firms rather than mandatory rules. For example, the FCA has been encouraging more effective communication between firms and consumers through initiatives such as Smarter Consumer Communications (FCA, 2015c; FCA 2015d) and fostering new products and services through Project Innovate (FCA, 2016g).

As Chapters 4 to 8 have shown, safeguarding access often has a strong social policy element which is more in the realm of Parliament and/Government. However, this does not preclude a role for regulators, for example, ensuring firms provide salient and 'fit-for-purpose' information to consumers so they can make informed decisions.

9.2.4 Government

Generally, consumers do not have a right of access to products nor firms a duty to supply them. Therefore, it is inevitable that, left to the market, some consumers will be unable to access the products or services they want or at a price they are willing or able to pay. Provided this situation has come about in a way that accords with relevant regulation, any decision to override this outcome will normally be a matter for social policy and is typically driven by concerns about social justice.

A decision that all consumers should have access to a product or service (for example, universal access to a bank account or Post Office branch as discussed in Chapters 4 and 5) or that some disadvantaged groups should be ensured access (such as the Flood Re scheme to give homeowners in the highest flood-risk areas access to home insurance described in Box 7.1 in Chapter 7) inevitably raises the issue of: who pays? The decision to override the way that the market would have allocated these products implies some cross-subsidy to enable the supply of the goods and services to those who would not otherwise have access. This might be a subsidy from other customers - as with the roll-out of broadband across most of the UK (Chapter 4) or the Flood Re scheme (Chapter 7). Alternatively, it might involve a subsidy from taxpayers, as in some 'Help-to-Buy' initiatives to help younger consumers to access homes and mortgages (HM Government, no date)²⁹.

Solving access problems in this way may involve the Government brokering an agreement with industry and/or passing legislation.

9.3 Indirect effects

Chapters 4 to 8 show that access issues are sometimes inter-related and have unintended consequences for access in other areas. For example, consumers who move to online accounts may lack the required paper proof of address to pass AML/CFT checks, and shopping around for products with a credit element may create a barrier to getting credit because it leaves a 'footprint'. Chapter 8 in particular focused on how government policy in other areas, such as Pension Freedom and Choice, deferring capping of long-term care costs, makes it harder for consumers in their 40s and older to get mortgages. Similarly, the FCA's different regime to protect equity release customers can limit mortgage innovation for other older customers.

These indirect effects suggest that policy makers and regulators should proactively anticipate and consider access issues, rather than tackling them reactively as they emerge.

Indirect effects: Questions to explore

Q. Should the Government and the FCA consider indirect effects on access when carrying out impact assessments of new policies and initiatives? What might this look like?

Q. What would the benefits be of the FCA routinely considering access as part of its market studies?

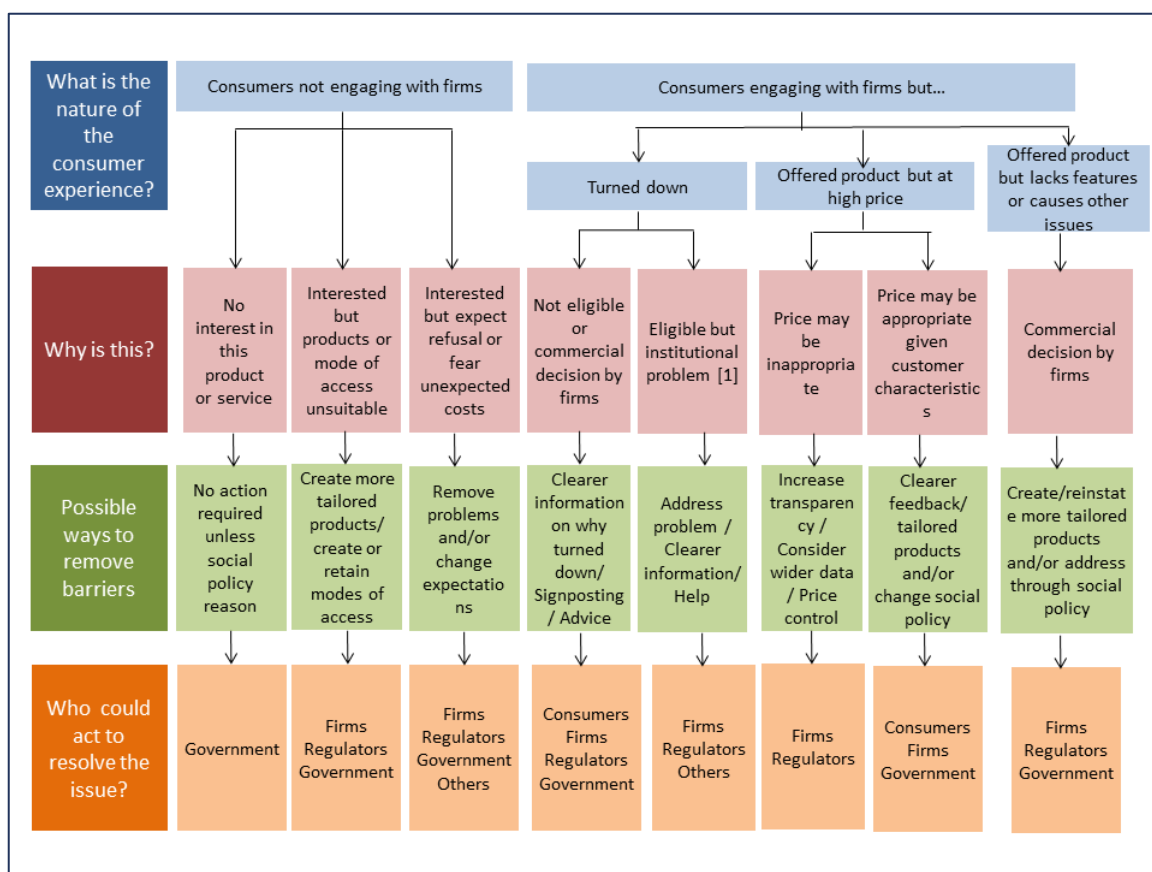
9.4 From issues to solutions

The previous section has described the main stakeholders and their capacity to drive change. Solutions to specific access issues and who is best placed to tackle them depend on the nature of the issue. Drawing on the research and analysis in Chapters 4 to 8, Figure 9.1 below demonstrates a possible taxonomy of access issues, mapping them from the consumer experience, through the nature of the problem and ways to remove barriers, to the stakeholders who might be able to act to resolve the issue. Each type of issue, with its possible routes to solutions, is discussed in the sections below. The aim is to move beyond the particular examples discussed in Chapters 4 to 8 to create a generalised classification that could serve as a blueprint for tackling any access issue.

²⁹ For example, the Help-to-Buy ISA is forecast to cost taxpayers £230 million in 2016-17 (OBR, 2016).

Consumer bodies (which are part of the group ‘Others’ in Figure 9.1) and individual consumers do not feature heavily in Figure 9.1. As discussed in section 9.2.1 above, while they are well-placed to draw attention to issues, they typically lack the resources and power to achieve change on their own. However, they can and do collaborate with other solution-makers to ensure that changes are shaped and delivered in ways that benefit consumers. For example, consumer bodies advise banks on the best locations for free ATMs under the LINK suitable site initiative (see section 4.5.4 in Chapter 4) and Unlock has worked with selected banks to gain acceptance of an identity document for ex-offenders (see Box 5.4 in Chapter 5).

Figure 9.1: From access issues to solutions – a taxonomy of access issues



[1] ‘Institutional problem’ refers to a firm’s internal communications, processes or other systems.

Source: authors’ representation

9.4.1 No interest in the product or service

Consumers may self-exclude themselves from certain products and services. The reasons for this are varied and may amount to access issues. In some situations, consumers simply do not want the products or services as they see no need for them given their own particular choices and lifestyle. Thus some, usually low-income, households see no need for a bank account, preferring to manage their budget in cash because it gives them predictable and strong control over their day-to-day finances. Older consumers are more likely to dismiss the internet as having no relevance to the way they have chosen to manage their affairs.

“I don’t go online – never have done, never will.” (Consumer interview, Newcastle; Rowe et al, 2016:41)

In situations like these, there is no immediate access issue from the individual consumer perspective. However, if their chosen products or way of accessing them are in decline, then over time there will typically be increasing costs to the consumer, firms and society of maintaining this stance. Consumers may rationally decide to forego savings from shopping around online or paying electronically rather than by cheque (see section 4.3.3 in Chapter 4) if their current arrangements give them the benefit of, say greater convenience or peace of mind. However, if these arrangements are being displaced by new technology and/or social trends, then, left to the market, the cost to these individuals will rise as their preferred option becomes increasingly niche. Alternatively, the service these consumers continue to use will become cross-subsidised by the mass of people who have adopted newer, cheaper options. Ultimately, the traditional options will cease to be available without market intervention.

These outcomes raise questions for firms:

- For how long is it commercially viable to maintain the traditional options?
- What level of cross-subsidy is justified to maintain the affordability of these options?
- What, if anything, should be done to move customers from the traditional options to the new ones?

The outcomes also raise questions for social policy:

- Should access to the traditional options be maintained beyond the point at which they are commercially viable?
- Who should pay the cross-subsidy required to keep them available?
- What, if anything, should be done to move customers from the traditional options to the new ones?

Chapter 4 illustrates access issues like these, with new, cheaper technologies transforming the UK into a digital economy. The impetus is coming from firms and also the Government which, as a service supplier, has adopted a 'digital by default' policy described as 20 times cheaper than delivering services by phone and 30 times cheaper than postal methods (GOV.UK, 2013). With much to gain from the digital transformation, firms and the Government have an incentive to encourage and help many customers to engage. However, only the Government is in a position to require firms to offer universal access.

9.4.2 Interested but unsuitable products or mode of access

Some consumers would like to take up a product or service but face a barrier to doing so. Again Chapter 4 provides examples of consumers being unable to engage with online financial services because of a lack of reliable broadband services, computer equipment or digital skills. Others are excluded by online interfaces that do not take into account the needs of people with disabilities. Consumers who prefer physical access struggle to use bank accounts because of a lack of branches or ATMs, particularly in rural areas. A different example is offered in Chapter 7, section 7.3.1 where some low-income homeowners would like to take out home contents insurance but standard policies do not meet their needs, and this type of issue is echoed for banking.

"There isn't clear information about how much products are going to cost or how they're going to work. When you're taking out the account, anticipating problems isn't built in to [the process] so something that's supposed to help you manage your money undermines your ability to do that." (Expert interview; Rowe et al, 2016: 32)

"One of the main practical issues that disabled people face when accessing financial products is around digital exclusion. Businesses need to look at how accessible their websites are as well as looking at their customer service provision." (Expert interview; Rowe et al, 2016: 42)

Firms are generally in the best position to solve this type of issue. For example, they can design more tailored products, provide adaptations and support to help consumers use new modes of access and ensure continuing access to alternatives. However, firms may lack incentives if the costs outweigh the expected benefits, as may be the case with low-income consumers or products that would serve only a niche market. Except where there is a breach of the rules – for example, by marketing existing products to consumers for whom they are unsuitable – solving these types of access issues may be difficult.

Interested but unsuitable products or mode of access: Questions to explore

Q. *Could more firms develop new products that benefit consumers and promote competition, facilitated by initiatives such as the FCA's Project Innovate?*

Q. *Building on the example of the FCA's recent discussion paper (FCA, 2016h) on issues for older people, is there potential for the FCA, firms, other regulators (in consultation with organisations such as think tanks and consumer organisations) to address access issues for other population groups in a similar collaborative way?*

Q. *Ultimately, maintaining particular products or modes of access may be a matter for social policy and therefore the Government. In such cases should regulators and firms in consultation with consumer organisations, proactively alert the Government to these issues as they arise?*

9.4.3 Interested but expect refusal or fear unexpected costs

Consumers may self-exclude from a market because they expect to be turned down or they fear unexpected costs, even though they would like the products or services and none of the barriers to access described in section 9.4.2 are obviously present. These kinds of issues were evident across Chapters 5 (access to bank accounts), 6 (access to credit) and 7 (access to insurance).

"It's like, if you don't have at least £800 cash coming in a month there are only the rubbish accounts for you. Because they don't want you to be a customer." (Consumer interview, Bolton; Rowe et al, 2016: 34)

There are essentially two strands to resolving these types of issues. The first is to address what actually happens when consumers engage with firms and sections 9.4.4 to 9.4.8 discuss possible ways to remove barriers. These include giving consumers a better experience even if they are legitimately turned down by, for example, explaining clearly what the problem is, suggesting how it might be removed and signposting to other firms or organisations that might help. It is to the industry's advantage if rejected consumers come away with helpful guidance and an intention to re-engage later.

The second strand is to change consumer expectations, i.e. alter their belief that it's not worth applying because they will be turned down. Changing the experience itself can help do that, if even rejected consumers share positive impressions of the industry. However, word of mouth can be a slow way to change expectations. If consumer perceptions are out of line with their actual experience, then there is a role not just for firms, but also regulators (for example, the FCA when reporting on market studies or the ICO in its consumer guidance), the Government and others such as consumer organisations and information and advice organisations to disseminate information and encourage engagement.

Interested but expect refusal of fear of unexpected costs: Question to explore

Q. *Should firms be encouraged, or required, to give consumers a better experience, even if they are legitimately turned down? For example, explaining clearly what the problem is, suggesting how it might be overcome and signposting to other firms or organisations that might help.*

9.4.4 Turned down because not eligible or because of commercial decision by firms

There are two reasons why a consumer who does engage with firms might legitimately be turned down:

- **Regulations** that are designed to protect the integrity of the market or well-being of consumers. Chapter 5 described Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) rules designed to prevent financial markets from being used for crime. Chapter 8 (ageing population) considered FCA regulations to reduce the chance of consumers taking on unaffordable debt.
- **Commercial reasons.** In any free market, it is always a possibility that some consumers will be turned down by firms that do not cater for their type of business, for example, because that line of business is simply not profitable. Examples were discussed in Chapter 6 (access to credit) and Chapter 7 (access to insurance).

In these cases, resolving the access issues is not about removing the supply-side barriers. Instead, it is often about helping consumers to understand the issue and what steps they can take to improve their chances of success if they decide to re-apply later, either to the same firm or a different one.

“When you start getting turned down, it’s easy to just assume that everyone is going to turn you down. They [firms] don’t give the impression that someone else might be able to help – it’s kind of a firm ‘no’.” (Consumer interview, Birmingham; Rowe et al, 2016: 26)

Immediate solutions are likely to involve clear explanations from firms to consumers about the reason they were refused. These explanations need to be sufficiently tailored and relevant to enable the consumer to take action to improve their position if possible. This could include, for example, advice on how to improve a credit score or to obtain proof of identity or address and signposting if there are alternative firms that might provide the product or service. There may be a role for both trade bodies and regulators in encouraging firms as a matter of good practice to apply the sentiments of Treating Customers Fairly (Box 9.2) to rejected applicants even though technically they may not be customers.

Box 9.2: Possible FCA remit for addressing better information and signposting**Consumer protection objective**

FCA must have regard to—

(c) the needs that consumers may have for the timely provision of information and advice that is accurate and fit for purpose;

(UK. Financial Services and Markets Act 2000, s1C(2))

Principles for business

7 Communications with clients: A firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading...

(FCA, 2014b, PRIN 2.1)

Treating customers fairly: consumer outcomes

Outcome 3: Consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale.

(FCA, 2015I)

Chapters 5, 6 and 7 illustrate how innovation can also help to address this type of access issue. Unlock has developed a new proof of identity to help ex-offenders comply with AML/CFT regulations (Chapter 5). The Big Issue has persuaded a leading credit reference agency to accept rental payment histories for credit scoring (Chapter 6). 'Big Data' is providing new ways to populate credit scoring algorithms and segment insurance markets (Chapter 7). Innovations like these all have the potential to help some people who were previously turned down to gain access.

Ways to resolve this type of issue may involve regulators and the Government if the regulations that are intended to restrict access for some consumers unintentionally impact on other groups of consumers as well (as discussed in Chapter 2, section 2.4.2). This may need some adjustment to the regulations, guidance on their implementation or a complementary solution (such as creating new forms of official identity).

Turned down because not eligible or because of commercial decision by firms: Questions to explore

Q. *Would consumers benefit from firms either voluntarily providing, or being required to provide, relevant information about the main reasons they have been refused, so they can understand how they can improve their chances of applying successfully in the future?*

Q. *Should more firms be encouraged to set up voluntary agreements to signpost consumers to other firms or advice organisations? Where voluntary agreements already exist (e.g. between the Association of British Insurers and British Insurance Brokers Association), can participating organisations be encouraged to monitor outcomes and share findings?*

9.4.5 Eligible but turned down

This situation typically arises where there are regulations of some sort that firms are either applying incorrectly or potentially using inappropriately as a cover for commercial decisions. The main examples come from Chapter 5, where front-line bank staff sometimes seem to reject proofs of identity and address that are permitted under the AML/CFT regulations, while some banks are suspected of using these regulations to justify 'de-risking' their customer base (see, for example, Gadd and Gapes, 2015; Gruppetta, 2015).

"They said I couldn't have a bank account with them because my name was too long for their system." (Consumer interview, London; Rowe et al, 2016: 21)

"We might see someone who's homeless being told, 'You must have a passport, go away and get one and that will cost you £80,' and of course that person hasn't got the proof to get a passport in the first place and they certainly haven't got £80." (Expert interview; Rowe et al, 2016: 23)

The solutions rest largely with firms by, for example, providing better training for front-line staff, and with regulators who may need to take a stronger stand on both compliance and over-compliance. Where the area of interest involves international regulation and cooperation (as in the Chapter 5 examples), negotiating and implementing solutions may be challenging.

Where problems persist, the issue may be partially resolved by other organisations entering the market. For example, in 2006 a group of credit unions, supported by the Cooperative Bank, launched the Credit Union Current Account³⁰ (ABCUL, no date). Credit unions are typically openly helpful to new customers with non-standard documents, for example telling potential account holders: *'If you do not have any of these documents, please let us know. There are many more documents that can be used. We would like to help you open a credit union account'* (London Mutual Credit Union, 2012).

Eligible but turned down: Questions to explore

Q. *What are the benefits of the FCA re-emphasising to firms the expectation that consumers should not needlessly be denied access to products and services and promoting a more consistent approach within firms and across the industry? This is when consumers have appropriate identification documents (as laid out by the JMLSG and FCA guidance).*

Q. *Should the British Bankers Association explore with its members the scope for improving bank account opening processes and encouraging consistency of approach to help close policy/practice gaps?*

Q. *What are the benefits of the industry enhancing its monitoring of bank account and basic bank account opening? And should the FCA enhance its supervisory oversight of bank account and basic bank account opening (and the migration of consumers between different types of account) when it gains responsibility for monitoring basic bank account opening in September 2016?*

Q. *What are the benefits of the industry and FCA collaborating to ensure that consumers are offered quotation searches as standard, where consumers make clear they are shopping around and not quite ready to make an application for credit?*

9.4.6 High price that may be inappropriate

In a free (in other words, perfectly competitive³¹) market, the price of a product reflects the cost of producing it including a margin for 'normal' profit. With some financial products, such as credit and insurance, the underlying costs depend on the risks posed by the customer and so the price each customer is charged varies with the risk. This is called risk-pricing. Where a market is not perfectly competitive, firms may have the power to vary the price charged to different customers regardless of the underlying risk and costs. This is called price discrimination and can occur in insurance markets where, for example, existing customers may be charged a higher premium than new customers who have the same risk profile.

³⁰ However, due to changes at the Co-operative Bank, the Credit Union Current Account is being closed from 31 August 2016 (Lewisham and Bromley Credit Union, no date). A new banking platform for credit unions is one element of the Credit Union Expansion Project, led by the credit union trade association ABCUL (ACBUL, 2015).

³¹ A theoretical market in which consumers and firms are so numerous and well-informed that no single one can exert any control on the price.

The difficulty for consumers in markets like insurance is that, unless they have relevant information about the underlying risks and costs, it can be difficult to know whether a high price is due to risk-pricing or price discrimination. ‘Standard’ consumers can find out by shopping around to see if they can get lower-priced insurance elsewhere. For ‘non-standard’ consumers there may be few alternative providers, and all of these could be using an element of price discrimination (or inaccurate risk-pricing).

“I tried lots of travel insurance companies who claim to specialise in providing cover for people with pre-existing medical conditions and I tried a dozen others recommended on the Macmillan website. Even though I told the companies that my life expectancy was two to five years, apart from one they all asked if I expected to be alive six months after returning from my holiday, I found this quite distressing and unnecessary. Some said they wouldn’t quote for terminal illnesses and could direct me to someone who would, one said they would call me back and never did. So I ended up going with the only insurer that would cover me at a cost of £1,300 for a 10 day cruise in Europe.” (Consumer interview, Surrey; Rowe et al, 2016: 33)

High price that may be inappropriate: Question to explore

Q. *Could there be benefit (for example in terms of promoting competition) in firms voluntarily providing benchmarking data similar to the benchmark data already published by the ABI regarding age as a factor in motor and travel insurance?*

9.4.7 High price that is correct

The high price some consumers face may accurately reflect the risks involved. In these cases, consumers need the means to improve their understanding and adjust their expectations. However, they seldom have the information to know whether or not a price has been set fairly. It might be in firms’ interests to publish some information along the lines of the Association of British Insurer’s age information (Chapter 7, section 7.5.3) to build trust with consumers and their representatives. Firms could also provide individual consumers with clear, tailored information about the main factors which have influenced the high price they are being quoted.

Risk-pricing in credit and insurance is based on data that is deemed to be relevant, but is not necessarily perfect. Consumer organisations, such as disability charities (Chapter 7, section 7.3.3), might be aware of data that could enhance the accuracy of firms’ risk assessments, but would require firms’ cooperation to take this forward. Increased granularity of data enables more finely segmented markets that can improve access for some consumers but may make it more difficult for others.

“What we would encourage is innovation around credit products at the design phase. Instead of trying to make everyone fit the current products on offer, we need to understand that there isn’t a ‘one size fits all’ credit product; different people need different products.” (Industry Interview; Rowe et al, 2016: 35)

Where some consumers are priced out of the market, this may be considered socially unjust, in which case the Government could step in to override market outcomes. Examples from the insurance sector are the Flood Re scheme and moratorium of the use of predictive genetic tests (Chapter 7, Box 7.1).

High price that is correct: Questions to explore

Q. Should industry and the ABI voluntarily make available information that demystifies risk pricing for consumers, the Government and regulator? Benchmarking data as described above could help consumers understand the pricing.

Q. Should firms voluntarily provide better, more tailored information to consumers about the main factors that have influenced the price they have been quoted?

9.4.8 Impact of commercial decisions

Consumers may find they are able to get a product or service at a price they are willing to pay, but that it has drawbacks. This could be a shortfall in the product itself, such as a shorter than desired mortgage term (Chapter 8, Box 8.1), insurance policy exclusions (Chapter 7, section 7.1.1) or the inability to make minor changes to an existing product without triggering such exclusions. Alternatively, it could involve commercial practices that cause some other form of detriment as, for example, when shopping around for credit or other products that have a credit element damages a consumer's credit record (Chapter 6, section 6.3.6).

"I wanted to reduce the premium slightly, to make monthly outgoings easier to manage. But they said I can't change anything on my policy without being a new customer, and if I do that they won't cover me for existing conditions. But I've been treated, with them covering it, in the past year. So I can't have that or what's the point of the policy?" (Consumer interview, St Albans; Rowe et al, 2016: 24)

"I know that you're not supposed to apply for many credit cards or that looks bad. So I always try and wait a while before I do the next one if I get turned down, as I often try and get good deals and balance transfers, that sort of thing. Normally I try to wait about six months but sometimes it's really difficult." (Consumer interview, Birmingham; Rowe et al, 2016: 35)

While firms have the power to address these types of issue, they do not necessarily have the incentive, in which case regulators or the Government could step in. The FCA (2016g) Project Innovate could also be relevant here, encouraging the development of new products to address changing needs.

Impact of commercial decisions: Question to explore

Q. Should the FCA expand its work to promote competition, to develop commercial solutions and meet differing consumer needs, for example through Project Innovate? If so how?

9.5 A way forward?

Figure 9.1 provides a categorisation of access issues and, together with the discussion in section 9.2, suggests who has the power to tackle them and so improve consumer outcomes. Several overarching messages have emerged in this chapter:

- Lack of data on the scale of access issues is not a reason for inaction but part of the problem to be resolved.
- There is no one-size-fits-all and different categories of issue indicate different solutions
- Most solutions require collaboration between different agents.
- Greater awareness of access issues caused by the interaction of seemingly unrelated initiatives could help to pre-empt problems.

A way forward? Question to explore

Q. Should there be closer joint working between the Government and regulators to address the effects of access problems and financial exclusion in a more strategic and co-ordinated way? What might this look like?

9.6 Concluding remarks

The purpose of this Occasional Paper is to open up a wider discussion about access issues in financial services. It aims to stimulate ideas and foster a culture of access and inclusion throughout retail financial services that includes firms, regulators, the Government and consumers. As part of this we have tried to present issues very much from the consumer perspective – what does detriment look like to consumers and what might good look like to them when it comes to issues of financial inclusion?

Evidence exists showing that many consumers face real barriers to accessing products and services that meet their needs over time. In addition, evidence demonstrates the types of detriment faced by many excluded consumers.

As authors we have primarily aimed to help clarify what lies within the potential scope of the regulator as well as to suggest ways in which regulatory activity could address access problems. We have also looked at the role of other actors, notably the Government, industry, consumer organisations and consumers in promoting better access to financial services. What matters now is how all of the different people and organisations who are able to make a difference come together to help solve these long standing problems.

We have also tried to contextualise access by providing an overview and examples of access issues for consumers in five big areas of social and technological development. We hope this will be of use to the regulator and others in visualising how to address a variety of the problems raised. The five areas were:

- The shift to online delivery channels, as a result of the digital transformation of financial services (Chapter 4).
- The impact on consumers of Know Your Customer and Anti-Money Laundering requirements, as part of financial crime prevention (Chapter 5).
- How access to consumer credit is shaped by automated processes (Chapter 6).
- The use of data in general insurance risk assessment and underwriting, as part of a wider trend to segment markets to a more granular level (Chapter 7).
- Access to credit in later life in the context of policy changes to address an ageing population (Chapter 8).

9.6.1 Strategic oversight

Unless there is a strategic approach to addressing access issues, excluded consumers will remain locked out of the market and the associated benefits that financial services can bring. At the same time, the market can only go so far in addressing the varying financial needs of people in the UK today. As authors, we question whether progress can be made without a more joined-up approach between the FCA, the Government, firms and consumer organisations. This reflects the fact that many different organisations have varying interests and responsibilities. While there are ad hoc examples of collaboration, there is no systematic attempt to work together. By continuing to act in isolation, it is the opinion of the authors that progress will be severely hindered.

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Appendix 1: Organisations engaged as part of the FCA's access programme

Consumer organisations

AdviceUK
Alzheimer's Society
Christians Against Poverty
Citizens Advice
Citizens Advice Scotland
Consumer Council Northern Ireland
Dosh
Financial Services Consumer Panel
Macmillan Cancer Care
Money Advice Scotland
Money Advice Trust
Money Savings Expert
Royal College of Psychiatrists
Scope
Shelter
StepChange Debt Charity
The Money Charity
Transact (Toynbee Hall)
Unlock (The National Association of Reformed Offenders)
Young Scot
Which?

Industry Representatives

Association of British Insurers
Association of Financial Mutuals
British Insurers Brokers Association
British Bankers' Association
Building Societies Association
Chartered Insurance Institute
Council of Mortgage Lenders
Credit Services Association
Finance and Leasing Association
Individual financial services firms
Lending Standards Board
Lloyds Market (Insurance)
The UK Cards Association

Other

The Financial Ombudsman Service

HM Treasury

Payment Systems Regulator

Financial Services Small Practitioners Panel

Appendix 2: Research methods

Consumer sample and recruitment

All fieldwork was conducted by ESRO between July and November 2015.

Depth interviews

The ESRO research team conducted a total of 51 x two-hour depth interviews with individuals who fell into at least one of the 'in-scope' access categories for the project. Prior research by the FCA's Consumer Insight department had identified each of these groups as being more likely to experience an access issue.

- Low income
- People with disabilities
- Unemployed people
- Older people
- Older mortgage borrowers
- Those with low literacy / numeracy skills
- People experiencing critical illnesses
- People living in isolated rural areas
- Travellers and gypsies
- Refugees and asylum seekers
- Those with English as a second language
- Ex-prisoners
- 'Unintentionally' homeless people
- Victims of domestic abuse
- Returning and current Armed Forces
- International students
- Care leavers

Discussion groups

ESRO also conducted six discussion groups with individuals who had had recent experiences that fell into the following issue areas:

- Recently rejected for a credit product
- Recently encountered problems opening a bank account
- Struggling to purchase appropriate insurance products
- Recently turned down for a mortgage due to age (i.e. too old)
- Currently helping a friend or family member with their everyday banking
- Struggling to understand financial language and concepts

Each discussion group was made up of between six and eight participants. Two groups were conducted in central London, two in Birmingham and two in Leeds.

Whole sample

To ensure that a broad range of experiences was captured, the research achieved a good geographic spread across the UK, with interviews taking place in England, Scotland, Wales and Northern Ireland. The sample also achieved a balance between male and female respondents, and covered a wide range of ages, income levels, ethnic / religious background, family / marital status, housing tenure and work status.

All respondents were recruited to have responsibility for their money, apart from in those situations where dependency was the primary recruitment criterion. Participants were also recruited to have a broad spread of perceived abilities when it came to understanding and managing their finances. All respondents were recruited to have experienced an access issue in one of the following areas:

- Digital access (including difficulties using or accessing online services)
- Identification (including issues encountered as a result of Know Your Customer and Anti-Money Laundering procedures)
- Credit
- Mortgages (specifically older applicants)
- Insurance

On some occasions respondents had experienced multiple issues within a given area, or across areas. In terms of respondents' interactions with the industry, ESRO ensured there was a broad spread of financial firms represented, including a range of the main banks, lenders and insurance providers.

Interview approach

Both the depth interviews and the discussion groups were structured around a detailed discussion guide, but were also designed to be open-ended and relatively flexible, in order to allow for unexpected insights as well as potentially sensitive issues to be discussed. As respondents were not recruited to have a strong understanding of financial products and services, the research materials were designed to be as clear as possible and written in 'plain' English.

The majority of the depth interviews were carried out in-home, with a view to establishing trust and creating a relaxed atmosphere. Discussion groups were conducted in hotel conference rooms.

Throughout the depth interviews and discussion groups, researchers sought to gain an understanding of each respondent's full financial picture, including the full range of financial products currently and previously held.

Researchers then discussed access challenges and the detriment caused, both real and perceived, as a result. All five access areas were explored in detail, in order to capture unforeseen experiences and challenges in addition to those specified at the point of recruitment. .

Additional interviews

The ESRO research team conducted 28 x interviews with experts, staff and representatives from a wide variety of organisations, including consumer and industry bodies, and specific financial firms. The majority of these interviews were conducted over the phone, with a few carried out face-to-face. Each lasted between 30-60 minutes. Expert interviewees occupied an appropriate role within the target organisation and were briefed on the key areas of interest prior to the interview.

The sample for expert interviews included representatives from the following organisations:

- Age UK
- Barnardo's
- CAB
- Consumer Council of Northern Ireland
- DOSH
- Friends, Families & Travellers
- Homeless Link
- Joseph Rowntree Foundation
- Macmillan Cancer Support
- Money Advice Trust
- National Numeracy
- NUS
- Passcard
- Prison Reform Trust
- Rees Foundation
- Royal British Legion
- Scope
- Scottish Refugee Council
- Stepchange
- Toynbee Hall
- Unlock
- Viridian Housing
- Barclays
- Building Societies Association
- Experian
- Federation of Small Businesses
- Financial Ombudsman Service

Full details of the research can be found in the publication *Mind the gap: Consumer research exploring experiences of financial exclusion across the UK* (Rowe, De Ionno, Peters, & Wright, 2016).

