CHASM | Centre on Household Assets and Savings Management

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Comment on FCA Occasional Paper 17: Access to Financial Services in the UK

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With the shift towards a society where consumers increasing have to take responsibility for their finances, comes the increasing need to be able to engage with financial services. This paper from the Financial Conduct Authority (FCA) highlights the barriers that some consumers face when trying to use financial services. It suggests that millions of consumers cannot access services which would help them better manage their finances and that these barriers to access impede consumers from taking the degree of responsibility that they might otherwise be able to.

The paper considers these barriers to access from five perspectives and for each perspective the report proposes developments that should help lower the current barriers;

- **Digital Transformation** – Increasing frequency of online payments along with the internet as a product channel and information source, raises concerns that this will become the predominant route to financial services resulting in exclusion of those that possess neither the skills nor the facilities to engage via this channel. Clearly, from the consumer perspective, it would be beneficial to retain a range of delivery channels in the future and for these to be accessible without cost differentials across channels. For those that are able to utilise online facilities it is important they are confident that these channels are secure and reliable whilst offering the option to talk to somebody easily and quickly when required.

- **Compliance and Crime** – With an ever increasing focus on the prevention of money laundering (which has links to the fight against global terrorism) comes greater complexity for consumers in surmounting the rules and regulations that are imposed to try and counter the actions of those with criminal intentions. However, one of the outcomes of this can be that for those without a passport, driving licence or permanent home address, the opportunity to engage with mainstream financial services is denied because they cannot satisfy the anti-money laundering measures which firms impose. To overcome the issues some consumers face, the financial institutions could provide a more consistent interpretation of the anti-money laundering rules, ensure that frontline staff are fully versed regarding the range of documentation acceptable to prove identity and address, inform and, where possible, assist customers in meeting these standards whilst themselves having easy access to their institution's money laundering reporting officer who has the authority to make decisions in non-standard situations. The report highlights centralised systems used in other countries to overcome this problem (eg Norway) and also the option to use the 'Blockchain approach' (a network of computers where information is recorded on a public ledger). Systems such as these may help those excluded from accessing mainstream financial services by the current systems.

- **Automated Processes** – Many mainstream lenders have over the last couple of decades moved towards the use of credit scoring to decide whether potential borrowers are 'suitable customers' without the option or willingness to include an element of discretion within this decision process. Although, this is clearly a successful way from the lender's perspective to control risk, from the consumer's perspective it results in exclusion of some and for others the fear of exclusion. I believe that the outcome of this, particularly for the more vulnerable, is a move towards higher cost lenders and sometimes to the unregulated arena (Jones and

Barnes, 2005). To improve the consumer's journey a number of improvements are proposed.

A trusted source of information regarding the credit process along with the option to shop around without the danger of damaging credit scores would lower barriers to access. Where consumers encounter difficulties obtaining credit from mainstream providers, improved feedback as to the reasons along with guidance as to how the problem(s) can be rectified would again ease the consumer's journey. My own experience as a mortgage broker is that lenders will not reveal the reason why a customer's application has failed the credit score, merely suggesting they obtain a copy of their credit record, which in itself can incur cost to the customer.

- **Segmented Markets** – The increasing ability of insurance companies to assess and price risk for both individuals and groups of policyholders is encroaching on the principle of mutuality that allowed the cross-subsidy operated by mutual societies and which formed a founding principle of the welfare state. Coupled with this has been the increasing shift towards automated processes including, online risk assessment systems which result in greater segmentation of the customer base. Most consumers need some form of insurance, be that buildings and/or contents, motor or some form of income protection. However, to engage they need to be confident that the policy covers what they expect and that it will pay out in the event of a claim. It is clear from other research that there is a difference between the public perception of insurance claims and the reality. Clasen and Koslowski (2013) highlighted this as a reason why consumers fail to engage with income protection. However, the ABI (2015), reporting the 2014 claim statistics, state that 92.9% of individual income protection claims were paid out. So clearly a gulf exists between public perception and reality which needs to be bridged to improve engagement. It is reasonable to assume that the increased use of approaches that segment markets will not help to restore consumer confidence.

- **Ageing Population** – This section of the occasional paper focuses on the barriers that exist within the mortgage market which discriminate against older consumers. Since the credit crunch and the implementation of increased regulation on the mortgage market we have seen a contraction in the number of lenders who will lend in to retirement. Although, recently this has started to reverse a little with some lenders extending the maximum age to which they will allow a mortgage term to extend. The Building Societies Association (2016) recently reported that:

> *"…6 societies will now lend up to age 80; 10 societies will lend up to 85 and a further 11 have no maximum age limit and manually underwrite each case…"*

As the 'baby boomer' generation reach retirement and longevity increases, housing wealth is increasingly seen as a way of supplementing retirement income and care funding. From the consumer's perspective, there is a need for advice which takes account of the whole picture when considering how they might utilise this housing wealth via a range of trusted products to meet their needs. However, the Conduct of Business Rules (COBs) which apply to the residential mortgage market and the 'equity release' market differ, which in itself creates a barrier to product innovation, which might otherwise allow a smooth transition from one to the other. My own research (Moss, 2015) highlights how yet another set of COBs apply to advice regarding investment and pensions which results in a regulated advice sector that is confusing for the consumer and includes some advisers who cannot take the holistic approach that may be required.

Concern was expressed in the FT Adviser (27/05/16) by one of the mortgage networks regarding this proposal for holistic advice set out in the occasional paper, saying it was not viable for advisers to cover all areas of financial planning. However, there are already regulated advisers working in the marketplace who do advise on all these areas. Perhaps there is a case to make advice on 'lending into retirement' a separate 'permission' where CF30 registration (pension and investment) is also required.

This occasional paper raises some important issues that currently and may increasingly act as barriers to consumers accessing financial services. Clearly a number of these barriers could potentially be removed if regulation and legislation was amended to allow some of the suggestions within this report to be tested and implemented. The taxonomy included within the paper summarises the nature of the barriers and why they exist. It goes on to suggest possible ways to remove these barriers and that it is government, the regulator and firms who are the major stakeholders that could act to resolve these problems.

My own research, which considered barriers to accessing financial advice (Moss, 2015), highlighted consumer knowledge as a barrier to consumers engaging with financial services. This factor needs also to be considered to address these barriers. My findings also support the case for an independent agency that offers guidance to consumers regarding the issues they face with their financial planning. Up to now this role has been provided by the Money Advice Service (MAS) and more recently Pensionwise along with other third sector organisations offering money advice. In the recent budget statement (HMT, 2016) it is proposed that the Money Advice Service, The Pensions Advisory Service and Pensionwise will be restructured in to a new body to provide pension guidance and identify gaps in the financial guidance market to ensure advice is available regarding debt and other money matters. However, at this stage there is no mention of this service taking the holistic approach as proposed by Hoban (2010) when he talked about nudging consumers towards taking a responsible attitude to their finances, even though the Occasional Paper is advocating a need for this. Again, my research suggests that for consumers to take a pro-active approach to their finances that a needs analysis is required as the starting point. This may be via a Financial Health-Check triggered by a generic advice service such as MAS or via regulated advice, but either way a holistic review rather than the product needs to be the starting point. That is, the need for a product should not be the reason for initial engagement as this may result in other needs not being addressed.

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