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

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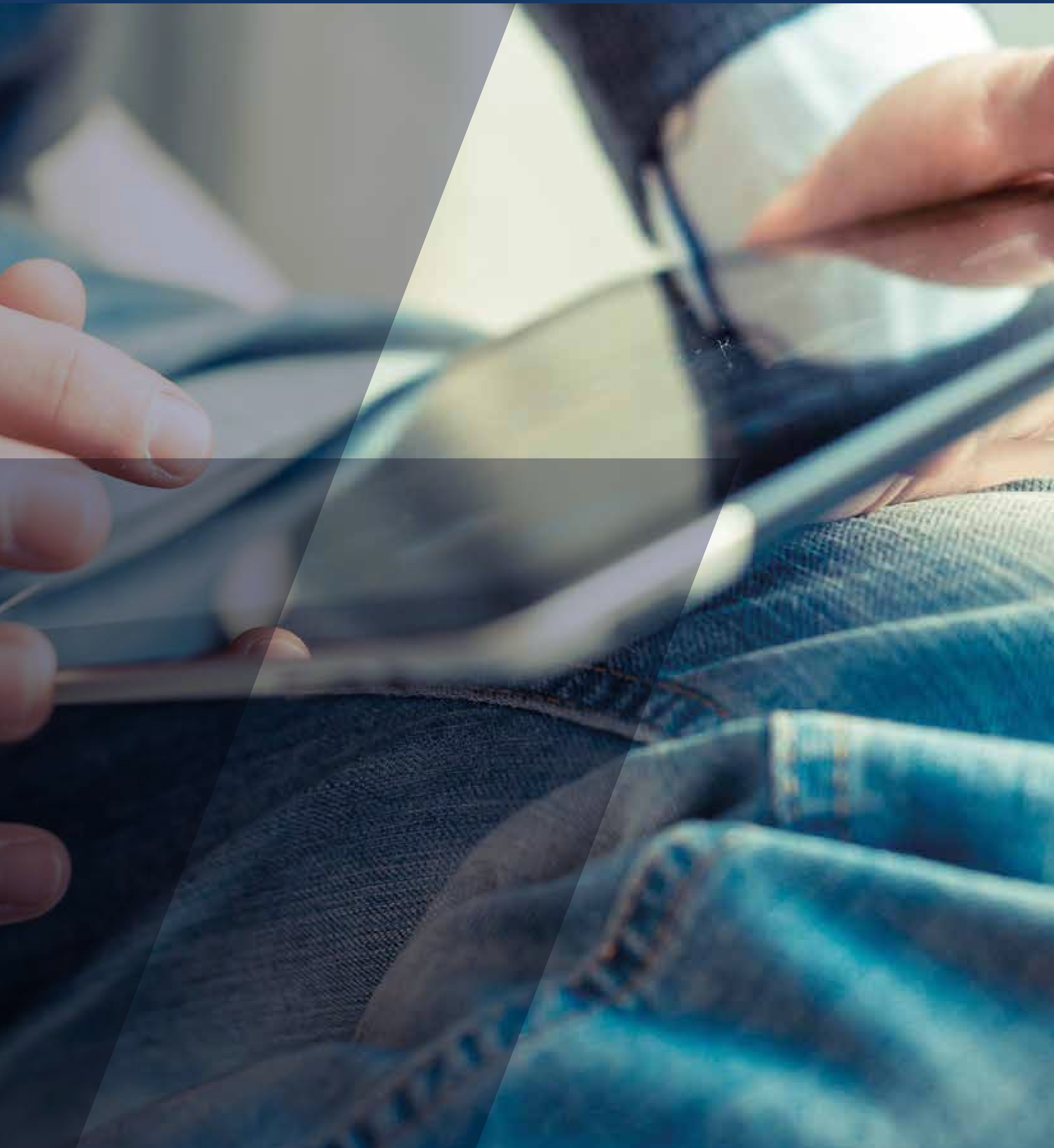


Executive summary

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.

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

"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**"

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.

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."

Source: Rowe et al (2016: 29, 38)

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

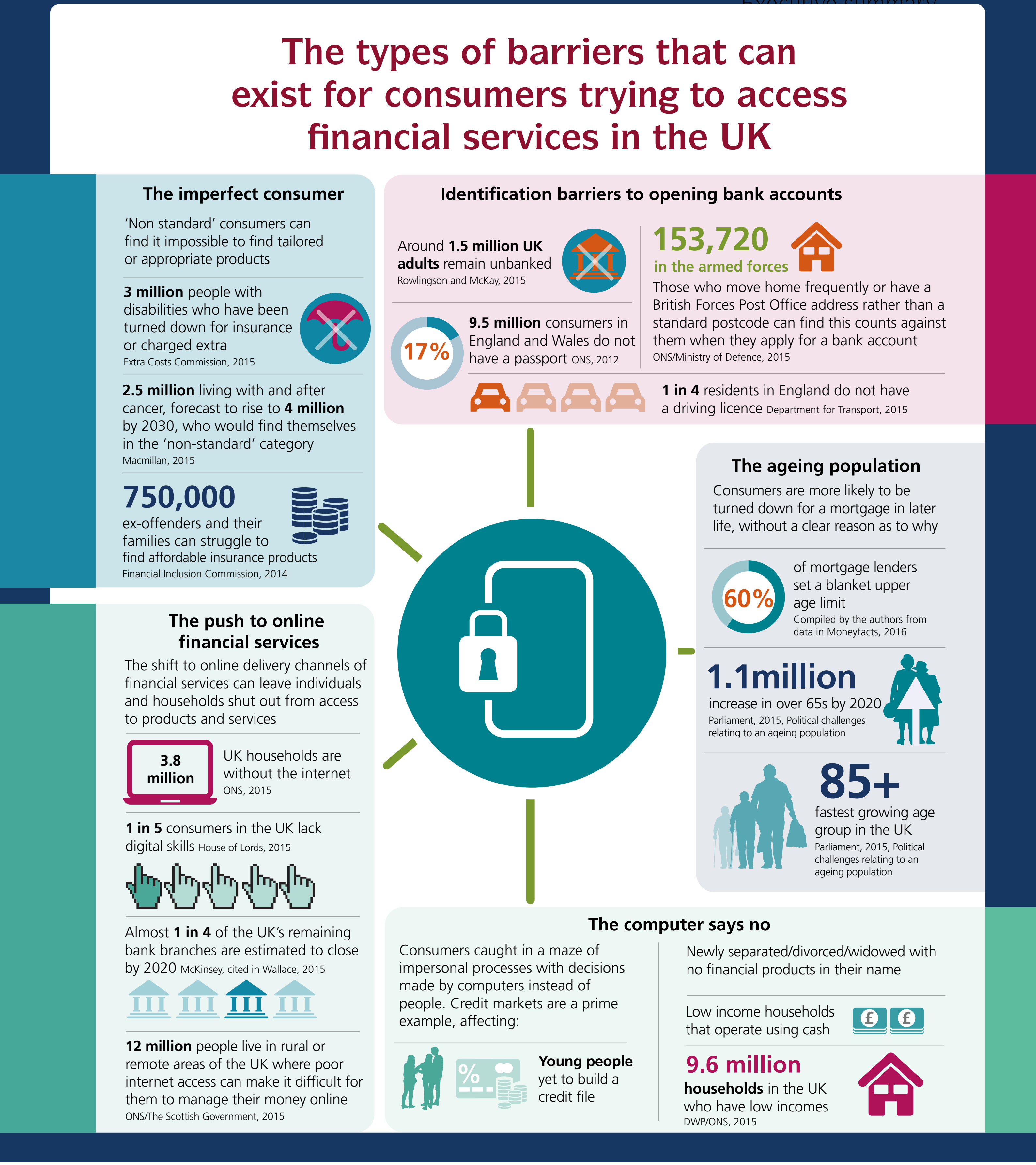
Scale of access issues

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?



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

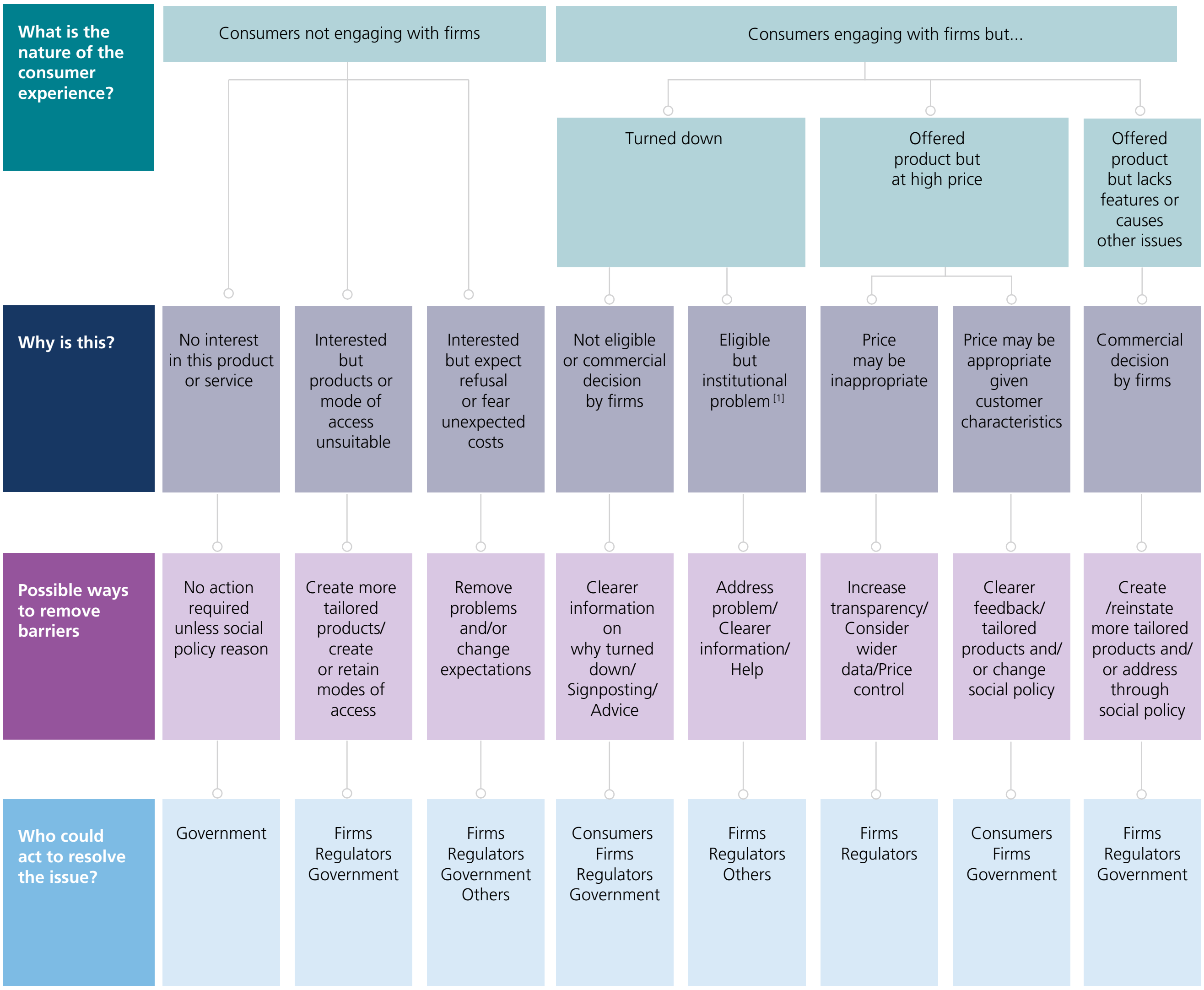
Figure 4: Functions relevant to access issues

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.

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.

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.

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