

FCA Mission:

Our Future Approach to Consumers



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Foreword

by Andrew Bailey



In April we published our Mission, which explained how and why we prioritise, protect and intervene in financial markets. Its publication marked our intention to be more transparent about the way we work and explained how we are accountable for the way we carry out our role.

Our Mission is ultimately to serve the public interest, and to deliver public value to wider society through our regulation. In our Mission, we said we would publish a number of documents giving further detail about how our approach will be reflected in our wider work; this document sets out *Our Future Approach to Consumers*.

Parliament has given us a single strategic objective – to ensure that relevant markets function well – and three operational objectives to advance: to secure appropriate protection for consumers; to protect and enhance the integrity of the UK financial system; and to promote effective competition in consumers' interests.

Our Mission explained that we act where we can add the greatest public value and have the greatest impact. We also consider the needs of the 'end user' – in this case retail consumers – and how our interventions or actions may benefit them. We will set out further information about how we deliver our objectives and interpret our role in respect of other end users and market issues in our Approach to Competition and our Approach to Market Integrity, which will be published in due course.

Markets can only work well if consumers are treated fairly. The financial products and services consumers need should also be available, marketed and sold in a way that allows them to make informed choices. To better understand the experiences of different groups of consumers, including those who are potentially vulnerable or struggling to access financial services, we have carried out extensive research and used much of it to inform this Approach document.



Different groups of consumers have different needs, which change over their lifetime and vary across financial services sectors. While some consumers have very sophisticated financial knowledge, vulnerable consumers or those struggling to access these services can have a particularly complex set of needs. If providers do not appropriately consider these needs, this can have a significant impact on these consumers. As a regulator, we want to ensure our work reflects the diverse needs of the UK population and that we tackle the areas of greatest harm.¹

Our Mission also makes clear that we have finite resources, and in this context need to give more protection to some consumers than to others.

We recognise that in some cases we need to collaborate with others to address issues like vulnerability and how we prioritise it in our work, financial exclusion and the limits of consumer responsibility. As well as supporting partnership working, we also need to understand - and carefully apply - theory and evidence. We have to take sometimes difficult decisions on what we prioritise, and our stakeholders should rightly be able to support and challenge these decisions. We are therefore seeking views and evidence on the thinking set out in this paper, which underpins our decision making.

We want to ensure that our Approach is informed by cutting-edge thinking, research and practice. This is why we are consulting on a set of key issues within it. By engaging and collaborating, we hope to develop a final document which provides clarity, sets clear expectations and explains how we serve the public interest and thus fulfil our objectives in respect of consumers.

Andrew Bailey,
Chief Executive,
Financial Conduct Authority

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Our Mission explained that we act where we can add the greatest public value and have the greatest impact. We also consider the needs of the 'end user' – in this case retail consumers – and how our interventions or actions may benefit them.

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¹ Our Mission explains that we group harm in financial services into five types, which often overlap. Harm may include confidence and participation being threatened by unacceptable conduct, consumers buying or being mis-sold unsuitable products, receiving poor customer service or treatment, and prices that are too high or quality that is too low. We are also vigilant to cases where important consumer needs are not met because of gaps in the existing range of products, consumer exclusion, or lack of market resilience.





Executive summary

Our Mission 2017, published in April, provided a framework for our strategic choices. It explained how we serve the public interest by improving how financial markets function and how firms conduct their business. It also explained how we regulate to deliver good outcomes for a wide range of users of financial services – including individuals, businesses and the economy. When we published our Mission, we also committed to publish a range of documents that would explain our approach to regulation in more depth.

This paper is the first in the series, and explores our approach to regulating for retail consumers. It sets out our initial views on what good looks like for all retail consumers, and aims to clearly explain how we will work to diagnose and remedy actual and potential harm, giving more certainty about our framework.

What does good look like?

In this Approach document we set out our vision for well-functioning markets for consumers. These indicators link with the conditions we want to see when competition is working well and when we observe market integrity. We will set out more specific details in each of our approach documents, which will be published in due course.

Our vision

In all markets we want to see:

Consumers are enabled to buy the products and services they need because the environment in which they are sold is clear, fair and not misleading with a good choice architecture.

High-quality, good value products and services that meet consumers' needs.

In addition, where markets are working well for consumers we will be able to observe:

Inclusion – where everyone is able to **access** the financial products they need and the needs of **vulnerable** consumers are taken into account.

Protection – consumers are appropriately protected from harm.

We explore the current consumer experience against this vision, and use it to set out our view on key issues.



We regulate for the real world and wherever possible our approach will be based on what we know about how consumers really behave.



Developing our Approach

Our Approach takes account of the diverse characteristics of today's consumers, as well as the external environment within which consumers and firms operate. Our Approach explores the real experiences of consumers, drawing on a wide range of research including our 12,865 person Financial Lives Survey 2017, published on 18 October 2017.

Our Approach is based around some core ideas set out below. We have used the Mission responses and relevant research to inform our thinking, and we welcome feedback and responses to questions asked in this document.

Consumer and firm responsibility

We regulate for the real world and wherever possible our approach will be based on what we know about how consumers really behave rather than theory. Behavioural research shows us that consumers are not the economically rational "super consumers" research models might assume. We will continue to base our interventions on how individuals in markets behave in practice, rather than just according to theory.

The diverse range of consumers active in UK financial markets means we need to make complex and finely balanced judgements about what it is reasonable to expect of different types of consumers and providers in any given situation. In line with our principles of good regulation, we expect consumers to take reasonable responsibility for their choices and decisions. The precise degree of reasonableness will depend on the circumstances, for example a consumer who has taken regulated advice should be able to rely on it being appropriate.

However, we also know that some consumers' low levels of financial capability, financial resilience or level of confidence in managing their money and finances, coupled with behavioural biases, make it difficult for regulators and firms to set a universal expectation of consumers. So, while we have regard to the general principle that consumers should take responsibility for their choices and decisions, we know that there are very real factors that might limit their ability to do so. We expect firms to frame decisions for customers (their "choice architecture") based on real world consumer behaviours and not to exploit biases. We also expect them to exercise extra care where consumers may be vulnerable. Best practice should take on board positive uses of behavioural research to help customers towards better outcomes.

Keeping pace with a changing environment

Wider environmental changes are also affecting both firms and consumers – and in particular, affecting how consumers make decisions. In the wider macro-economy, interest rates have been at an all time low for nearly a decade, and real interest rates have been near to or below zero. Some asset values have risen strongly, for instance property prices, and in general consumers are buying houses later in life. These conditions have affected different generations in different ways and changed how individuals use debt. Our Financial Lives Survey 2017 shows that 7.7m UK adults are over-indebted.² An ageing population also means many people will need to work longer, and face a number of complex and unfamiliar decisions as they approach retirement.

² Over-indebted is a term adopted from the Money Advice Service to describe having one or both of the following characteristics: keeping up with domestic bills and credit commitments is a heavy burden; payments for any credit commitments and/or any domestic bills have been missed in any three or more of the last six months.



Technological advances are also changing the way that firms design, distribute and market their products, and firms are becoming increasingly sophisticated in how they segment and analyse target markets. Although this offers potential benefits, there are risks that some consumers struggle to engage or are otherwise left behind.

Financial services need to be able to adapt to the changing circumstances that real life throws at people. We therefore need an approach to regulation which can take account of the differing characteristics of today's consumers, yet also provide as much certainty as possible to market participants. We will have an eye to the future, and build on our understanding of concepts such as behavioural economics and Big Data to adapt our approach to regulation over time. Where we need to adapt standards we will do so on a forward-looking basis.

Regulating for vulnerable consumers

Consumers in vulnerable circumstances may be significantly less able to represent their own interests than the average consumer, and more likely to suffer harm. Vulnerability can affect the way people interact with any market, but is particularly challenging in financial services, partly because of the long-term nature of commitments and the complexity of products and information.

Any consumer can become vulnerable at any time in their life, for example through serious illness, loss of income or bereavement. We expect firms to pay attention to possible indicators of vulnerability and have policies in place to deal with consumers who may be at greater risk of harm.

However, we know that potential harm does not develop into real harm for the majority of people

who could be at risk. This requires a careful balancing act involving firms, wider stakeholders and the FCA to deliver an approach which ensures vulnerable consumers are helped and protected, but can also participate in the same markets as everyone else.

Having regard to access and tackling exclusion

While not necessarily vulnerable, some consumers can find that they are inadvertently excluded from participating in financial services due to their specific characteristics or circumstances, or that firms actively do not wish to service them due to the perceived risk that they represent. When a consumer faces barriers accessing financial services, this undermines their ability to take responsibility for their own financial security, which in turn potentially damages their longer-term well-being.

It is often not obvious who should take responsibility for access issues. In a market-based economy, consumers do not have an automatic right to receive products and services. Similarly, firms do not have an obligation to provide them unless the law creates specific universal obligations, such as with post or telecoms – or in the context of financial services, basic bank accounts.

Unlike utilities regulators, the FCA does not have a specific responsibility to ensure access for all consumers. Yet under our statutory competition objective we have regard to how easy it is for consumers to access financial services. We also have to consider the impact of our policies and processes on different groups of the UK population, as set out in the Public Sector Equality Duty (Equality Act 2010). We will look particularly at cases where markets do not provide access to certain kinds of services, or to particular consumer groups.



Financial services need to be able to adapt to the changing circumstances that real life throws at people. We therefore need an approach to regulation which can take account of the differing characteristics of today's consumers, yet also provide as much certainty as possible to market participants.





We will seek to develop practical strategies to tackle access problems, working with firms and stakeholders to do so. This will include looking at our own rules, but also ensuring they are being interpreted correctly. However, ultimately any decision to place additional economic obligations upon firms to deliver access would be a matter for Government and Parliament (after which point we will supervise implementation and delivery if appropriate). For example, when consumers living in flood-prone areas had difficulty getting property insurance, this was resolved by the Government and the insurance industry setting up Flood Re, rather than by our regulatory intervention.

Delivering better outcomes for all consumers

We have a wide range of tools which we deploy to diagnose and remedy types of harm. These range from harder, more prescriptive interventions (for example imposing new rules on firms) to less formal interventions such as communications to consumers or firms. We also use convening powers which help the FCA, firms and other stakeholders to come together to resolve an issue, without the need for formal regulatory intervention.

The underlying questions we are tackling in relation to vulnerability and access are also part of the ongoing public debate on social policy and consumer issues. These include the House of Lords' report into financial exclusion, the National Audit Office's review of regulators' work on vulnerability and access and the Financial Services Consumer Panel's research on competition and how it is serving consumers.

Delivering good outcomes for vulnerable and excluded consumers requires a degree of co-operation

between firms, stakeholders and the FCA and requires us to devise coherent strategies rather than merely reaching for the rules or delivering piecemeal remedies. We have seen improvements in a number of areas following our other less prescriptive interventions, particularly firms' consideration of access, vulnerability and an ageing population following publication of our Occasional Papers, and further positive innovations following our 'TechSprint' events. We now need to consider whether we are striking an appropriate balance between formal interventions and use of our convening powers.

Our previous work also indicates that vulnerable or excluded consumers are particularly susceptible to exploitation or harmful actions from firms, for example those who have low financial capability or literacy may be targeted by scam artists or fall foul of confidence tricks designed to part them from their money.

We will take any deliberate exploitation of vulnerable or excluded consumers very seriously. Our response will include using the toughest enforcement action open to us.

Duty of Care

The FCA Handbook Principles apply to most authorised firms and include the Principle of 'treating customers fairly'. Our Handbook also requires that firms act in the best interests of their clients.

However, a number of our stakeholders have also identified a potential need for us to introduce a new Duty of Care for firms. This would impose an obligation for firms to exercise reasonable skill and care in the provision of services to consumers.³

Opinions differ about what the exact nature and effect of a duty of

care might be. Whatever is done, we need to undertake a thorough and detailed consideration of the issue against the effect on our handbook as a whole. We believe that is best done following the UK's withdrawal from the European Union once the relevant parts of the European legislation have been incorporated into UK law and our handbook. We will publish a Discussion Paper to explore the Duty of Care issue as part of the broader exercise of reviewing the FCA Handbook.

Next steps

This paper is not intended to be our final word on the subject, nor a list of tasks, but to broaden the debate we started with our Mission and set out our views so far – and the responses we receive will play an important role in shaping our future views. You can find details of how to respond on page 47.

³ The FCA is designated as an enforcement body for the Consumer Rights Act 2015 and a qualifying body under the Unfair Terms in Consumer Contracts Regulations 1999, which both impose additional obligations on firms in this regard.



We will seek to develop practical strategies to tackle access problems, working with firms and stakeholders to do so. This will include looking at our own rules, but also ensuring they are being interpreted correctly.



Section 1

FCA's remit and obligations

As the UK's financial services conduct regulator, it is our role to supervise the conduct of around 56,000 firms supplying financial products and services that help drive the UK economy. Individually and collectively, their actions have an impact on the approximately 65 million people⁴ currently living in the UK. With over two million people employed in financial services in the UK, the financial sector is a leading UK industry.

The financial products and services firms provide and the way they provide them play a fundamental role in individuals' lives. Within this context, it is essential that the relevant markets function well, and deliver good outcomes for all consumers.

Our statutory powers and duties

The Financial Services and Markets Act (FSMA) requires the FCA to act in a way which is compatible with our strategic objective of ensuring relevant markets work well and which advances our operational objectives of:

- securing an appropriate degree of protection for consumers
- protecting and enhancing the integrity of the UK financial system, and
- promoting effective competition in the interests of consumers⁵

Our Mission 2017 set out how we approach our regulation of financial markets in line with the principles of good regulation and the scope of our powers and duties under FSMA.

We also have powers under general consumer law to protect consumers from harm caused by misleading contract terms, poor sales practices or when services are not delivered with appropriate care and skill. This includes our designation as an enforcement body for the Consumer Rights Act 2015 and a qualifying body under the Unfair Terms in Consumer Contracts Regulations 1999.

We will also consider wider contract law in our work including the enforceability of contracts and the ability of vulnerable consumers to enter into contracts.

We do not have a specific responsibility to ensure access to financial services for all consumers, for example through universal service obligations. However, under our statutory competition objective, when considering the effectiveness of competition in relevant markets

we may have regard to how easy it is for consumers to access financial services, including consumers in areas affected by social or economic deprivation.⁶

Where Government gives us the power to do so, we supervise access obligations on firms, such as the obligation since September 2016 to provide basic bank accounts. Under the Equality Act 2010, the FCA's Public Sector Equality Duty also requires us to have due regard to the need to eliminate discrimination, advance equality of opportunity and foster good relations between people who share a protected characteristic and those who do not while carrying out our activities. This may include considering any impact on different consumers' ability to fairly access financial services.

For customers accessing UK financial services, firms must also comply with the Equality Act 2010 in how they interact and communicate with vulnerable groups.

⁴ Office of National Statistics (ONS), *Population estimates for UK, England and Wales, Scotland and Northern Ireland*

⁵ This applies when the FCA is carrying out its general functions such as making rules, issuing codes and guidance and determining the policies and procedures by which the FCA performs its functions.

⁶ The Financial Services and Markets Act 2000 (FSMA), Section 1E www.legislation.gov.uk/ukpga/2000/8/contents



Spotlight on protected characteristics

The Equality Act 2010 provides a legal framework to protect the rights of individuals who have certain 'protected characteristics' (eg age, disability, race, maternity) and to promote equality of opportunity for all. Based on the Financial Lives Survey 2017, we find that:

- of all age groups, 18-34 year olds are the most likely to face problems with their day-to-day account (92% of 18-34 year olds say they have had no problems with their account in the last twelve months, compared to 96% of those aged 45 and over, and 99% of those aged 85 and over)⁷;
- compared to consumers with no children, those with 3 or more financially dependent children under the age of 17 are more likely to have been declined for financial products, advice or another service over the last two years, with one in seven (15%) saying they have been declined, compared to very few (7%) with no children;
- one in eight (12%) consumers with mental or physical health condition(s) lasting or expecting to last twelve months or more say they have been declined for one or more products in the last two years, compared to fewer than one in ten (8%) of those without any mental or physical condition(s).

Our expectations of firms

Our Handbook of rules and guidance has long set out obligations on firms in the way they treat consumers. This ranges from the high level Principles for Business to detailed rules and guidance on complaint handling and redress.

For example, the obligation set out in Principle 6 of the Principles for Businesses 'to pay due regard to the interests of customers and treat them fairly' was a requirement of the previous regulator the Financial Services Authority and still applies. It is supported by the six customer outcomes that underpin our Treating Customers Fairly regime:

- **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

These outcomes set the baseline of our expectations of how firms should treat consumers and we use them to inform our assessments of firms' conduct. These outcomes also provide the basis for our vision of what consumers can expect to see when firms are treating them fairly.

We recognise that to treat customers fairly requires complex judgements from firms. In recent years we have sought to stimulate further debate and focus on the areas of Vulnerability and Access through the publication of our Occasional Papers.⁸ Our knowledge of areas such as Big Data, behavioural economics and vulnerability is also expanding. We need to hold firms to today's standards while also being able to adapt in the future and keep pace, moving together with the industry as standards and practices change.

⁷ Day-to-day account is the account people use for day-to-day payments and transactions. For most people this is a current account. For others it can be a savings account (with a bank, building society or NS&I), a credit union savings account, an e-money alternative account or a Post Office card account. This is the definition of day-to-day account used throughout this paper. In some instances, questions are not asked of respondents with a Post Office Card account(s). We identify when this is the case. For more information about this definition, please see the Financial Lives Survey 2017 report – www.fca.org.uk/publication/research/financial-lives-survey-2017.pdf

⁸ FCA, Occasional Paper No. 17: Access to Financial Services, May 2016 www.fca.org.uk/publication/occasional-papers/occasional-paper-17.pdf
FCA, Occasional Paper No. 8: Consumer Vulnerability, February 2015 www.fca.org.uk/publication/occasional-papers/occasional-paper-8.pdf



We expect firms to exercise extra care where consumers may be vulnerable, although we recognise that it may be challenging for firms to identify vulnerability in some cases.



Understanding consumer responsibility and behaviour

In line with FSMA, we expect consumers to take reasonable responsibility for their choices and decisions. The precise degree of reasonableness will depend on the circumstances. For example a consumer who has taken regulated advice should be able to rely on it being appropriate. However, we also expect firms to frame decisions for customers based on real world consumer behaviour and not to exploit biases. We expect firms to exercise extra care where consumers may be vulnerable, although we recognise that it may be challenging for firms to identify vulnerability in some cases, for example where consumers do not recognise that they are experiencing difficulties or are reluctant to discuss personal matters.

We recognise that we must also regulate for real consumers and not just the 'ideal' consumer envisaged

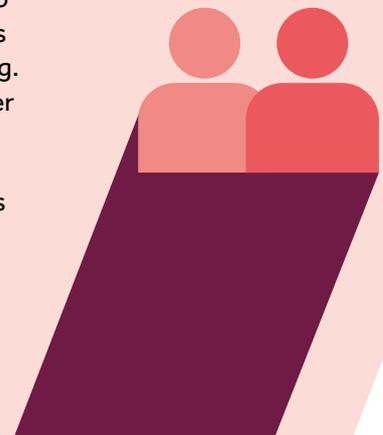
by theory. The 'ideal' consumer would always behave rationally, meaning that they would take a keen interest in their financial services products and always read the small print in full. They would switch when their research showed they were not getting the best possible deal and they would be capable of making the complex calculations and trade-offs to understand and compare the value of products. They would prioritise researching the best deals and act on their findings to reward competitive firms with their business.

Our Financial Lives Survey 2017 shows that very few consumers are 'ideal'. Low levels of financial capability, financial resilience and confidence in their ability to make financial decisions, coupled with behavioural biases, make it difficult for firms to expect consumers to always take responsibility for their decisions and actions.

Consumer behaviour: case study examples

Obedi has always paid into her workplace pension. She felt she had to, rather than making an active decision to contribute. She has no idea how much she pays into her pension or how much her pension is worth. She recalls receiving an annual statement, but barely looks at it. When she does do so, she finds it hard to understand. She would not want to make any choices about where her pension is invested, and would rather leave this to someone who knows what they are doing. She feels concerned she will not have enough money in her old age, but, given her lack of understanding, does not know what to do to take control.⁹

Meet Angela. Angela's adult son has cancer and, as well as caring for him, she has to manage his day-to-day finances. They have spent over £30,000 on his care so far and are struggling financially; so she has moved into her son's house and has been servicing the mortgage on his behalf for the past year. Despite this, Angela has not told the bank about her son's condition. She worries that if she did he would have a 'black mark' against his name and credit rating and so would struggle to get financial products in the future.¹⁰



⁹ Case study example taken from the Financial Lives Survey 2017 Report, www.fca.org.uk/publication/research/financial-lives-survey-2017.pdf

¹⁰ Macmillan, In the Balance- The banking sector's vital role in supporting people with cancer, 2017 www.macmillan.org.uk/_images/MAC16756-In-The-Balance-Report-ENG-Web_tcm9-313924.pdf



While our Financial Lives Survey shows that 50% of consumers show characteristics of potential vulnerability, potential harm does not necessarily develop into real harm for the majority of them. Therefore this requires a careful balancing act involving firms, wider stakeholders and the FCA to ensure a balanced approach to these issues so vulnerable consumers are helped and protected, but also able to participate in the same markets as everyone else.

It is therefore necessary for firms to make complex and finely balanced judgements on the reasonable expectations of consumers in any given situation. Our rules require firms to demonstrate that their decisions are based on a clear understanding of the customers that make up their target markets. We will continue to undertake extensive research into the experiences of real consumers to inform our judgements.

Future discussion paper on a 'duty of care'

The Financial Services Consumer Panel (FSCP) and others have suggested that legislation should be amended to introduce a 'duty of care' on firms which would oblige firms to exercise reasonable skill and care in providing a service. There are different opinions about the benefits of introducing a 'duty of care' obligation and, as set out in Our Mission, we have committed to produce a discussion paper on the introduction of a duty of care as part of our handbook review following the UK exit from the European Union.



Our decision-making framework

Our Mission¹¹ set out to provide greater clarity on how and why we prioritise, protect and intervene in financial markets. It explained our decision-making framework that prioritises where we use our resources to add public value.

To apply this framework we assess where financial services markets or firms are harming consumers and other users (actual harm), have the potential to do so (potential harm) or where markets are not working as well as they could. In considering harm, we will take into account the types and characteristics of consumers affected (user needs), such as vulnerability, as well as the situation itself.

In this document we explain how we will assess and prioritise user needs in our decision-making framework to achieve our vision for well-functioning markets that benefit everyone.

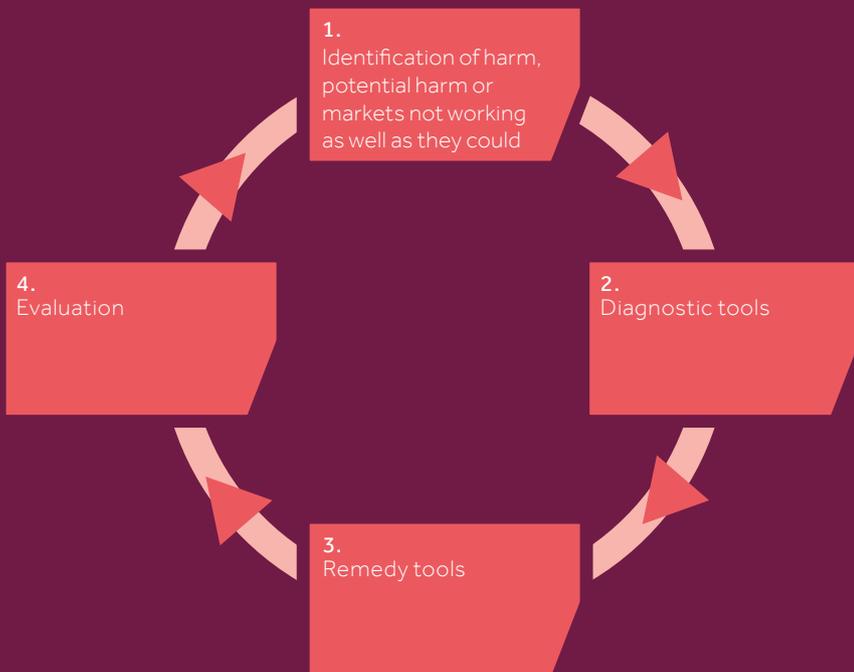
The interplay with Government and other stakeholders

We recognise that we may not always be best placed to resolve the harms we see, and that we are just one part of a complex network trying to protect the interests of consumers. For example, while we see high levels of low financial capability in our work, the Money Advice Service (MAS) has the statutory responsibility for improving financial capability in the UK; and while one of our statutory objectives is to protect consumers, both the Financial Ombudsman Service (FOS) and the Financial Services Compensation Scheme (FSCS) also play a vital role in protecting consumers.

Recent work by the House of Lords on financial exclusion, the National Audit Office's review of regulators work on vulnerability and the Financial Services Consumer Panel research on competition and consumers have all informed the development of our Approach. This work highlights the need for us to continue to work collaboratively with Government, other regulators, charities, consumer bodies and industry to achieve the best outcomes.

Our recent occasional papers on Access and Vulnerability show the breadth and complexity of consumer issues, as well as the need for a multi-organisation response to achieve real change. We will always seek to act within our remit and be clear on where we feel we can act and where there is a need for action from others, for example Government.

Figure 1: The FCA's decision-making framework



¹¹ FCA, Our Mission 2017, <https://www.fca.org.uk/publication/corporate/our-mission-2017.pdf>





Section 2

What we know so far

Introduction

In this section we explore the real experiences of consumers in the UK today. This picture is informed by a number of sources, mainly our Financial Lives Survey 2017¹² of 12,865 people, published on 18 October 2017.

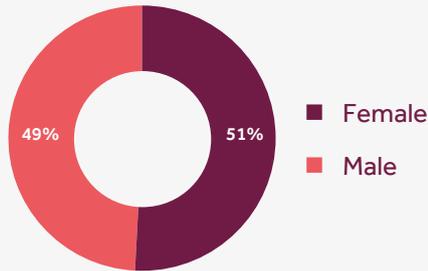
We set out our key insights into who consumers are in 2017 and how they interact with financial services. These insights come largely from our Financial Lives Survey 2017, along with other sources. We set out our observations of the trends and the challenges for all consumers in three ways:

- the changing economic environment for financial services
- the changing landscape for financial services firms
- consumers today

¹² The Financial Lives Survey 2017 is the first wave of our new consumer tracking survey. Its design is robust, the number of participants large (nearly 13,000), and results are weighted to represent UK adults aged 18 and over. You can access the report, questionnaire, technical report and data tables via <https://www.fca.org.uk/publications/research/understanding-financial-lives-uk-adults>

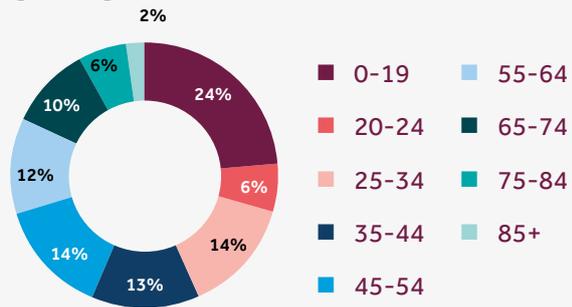
Who are consumers in 2017

Gender

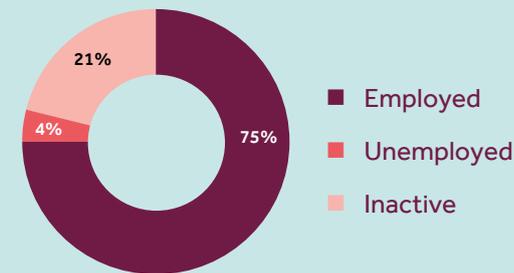


Source: ONS, Mid-2016 population estimates, June 2017

Age range



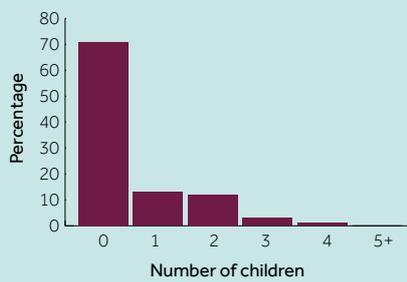
Working status



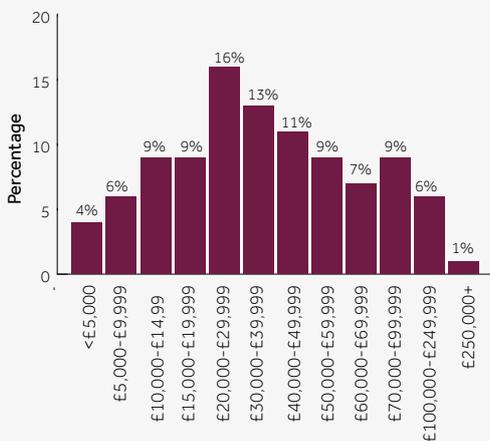
Source: ONS, Labour Force Survey, September 2017

Note: ONS defines 'employed' as people aged from 16 to 64 in work, 'unemployed' as people not in work but seeking and available to work, and 'inactive' as not working and not seeking or available to work.

Financially dependent children aged 17 or under



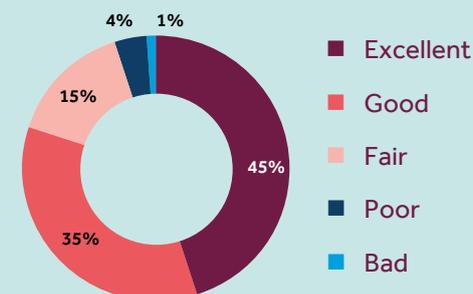
Total household income before tax



Property status

Buying with the help of a mortgage or loan	31%
Own outright	30%
Rent	29%
Live here rent free	7%
Pay part rent and part mortgage	1%
Sheltered accommodation	1%

Internet ability



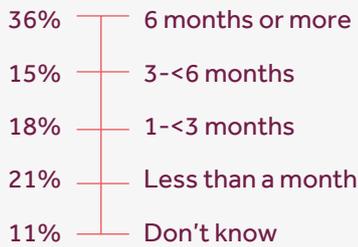
Base: all UK adults who use the internet

Internet usage

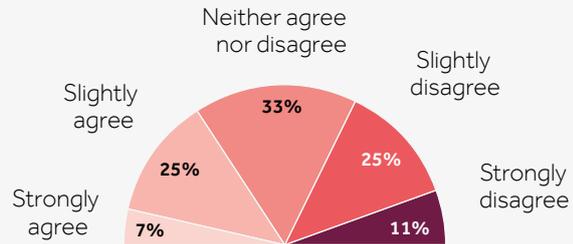
At least once a day	67%	Once a month	1%
Most days	10%	Once every 2-3 months	0%
2-3 times a week	6%	Once every six months	0%
Once a week	2%	Less often	2%
Once a fortnight	1%	Never	10%

Who are consumers in 2017

If you lost your main source of household income, how long could your household continue to cover living expenses, without having to borrow any money or ask for help from friends or family?



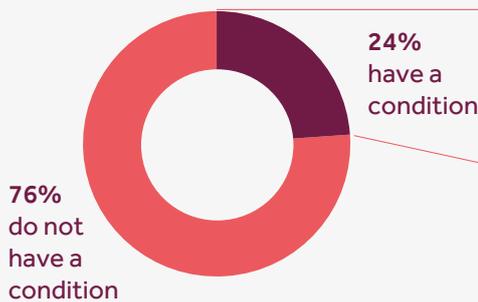
I feel most financial firms are honest and transparent in the way they treat me



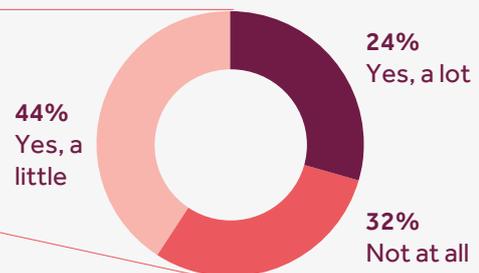
Which of the following events have you (or your partner) experienced in the last 12 months?

Moving house	9%	Unwanted fall in working hours	2%
Losing your job/ being made redundant	5%	Separation from partner	2%
Death of a parent	4%	Becoming the main carer for a close family member	2%
New baby	4%	Divorce	1%
Serious accident or illness of a close family member	4%	Death of your partner	1%
Getting married	3%	Death of a child	0%
Receiving an inheritance	3%	Being made bankrupt	0%
Serious accident or illness (myself)	3%	None of these	69%

Do you have any physical or mental health conditions or illnesses lasting or expected to last for 12 months or more?



Do these illnesses affect your ability to carry out day to day activities?



These statistics are taken from the Financial Lives Survey 2017, unless otherwise stated. The survey findings are weighted to be representative of all UK adults aged 18 and over. Here, and throughout this chapter, we rebase results to exclude don't know (DK) and prefer not to say (PNTS) responses, where appropriate. Full results are available in the published Financial Lives Survey 2017 weighted data tables. Please note that results shown in this infographic are for all UK adults, unless otherwise stated.

Working status data from ONS is not directly comparable to data from the Financial Lives Survey 2017 due to differences in the definitions of the different working statuses. Moreover, ONS also organises age ranges differently from the Financial Lives Survey 2017.



The changing economic environment for financial services

The rate of societal, technological and economic change has increased rapidly over the past twenty years. Younger consumers face an environment that bears little resemblance to the one their grandparents or parents faced. Intergenerational financial inequality is rising; young adults' living standards are decreasing.¹³ In addition, the UK average age of a first-time home buyer is now 30.¹⁴

Consumers have different needs and are driven by different and complex motivations, with rational and behavioural barriers to being 'ideal consumers'. There are many factors which can influence the decisions consumers make. How complex deals or offers are, inertia, marketing and the impact of firms' communications all play a role in consumer decision-making. We observe that consumers' needs and experiences are becoming increasingly complex.

We are getting older

It's well established that the UK population is on average getting older. It is projected that by 2040, nearly one in seven (13.3%) people in the UK will be over 75.¹⁵ The World Health Organisation warns that young people in Europe could have reduced life expectancy due to smoking, drinking and obesity. Younger generations are expected to live longer than their parents and grandparents, although this is slowing over time.¹⁶ This changing demographic will have ramifications for public policy and firms will also have to adapt. Those who have

grown up in the digital age are generally more confident with this technology and are unlikely to face the same digital exclusion as some older consumers. However, meeting the needs of different age groups will remain essential.¹⁷

We launched the Ageing Population Project in February 2016 to start exploring how this particularly affects financial services. We published an Occasional Paper on 21 September 2017. This set out the key findings from our work and our strategy for mitigating the potential resulting harm. We wanted to help firms identify and understand the specific needs, characteristics and preferences of older consumers. We also wanted to encourage sustainable change by helping to create the conditions that deliver good consumer outcomes. Our work is also designed to challenge financial exclusion and prompt firms to consider the issues posed by demographic change.

We will be working for longer and supporting more pensioners

There has been a significant switch from a combination of state and employer responsibility for long-term saving and pension provision to individual responsibility. This has been accompanied by greater choice for consumers. The post-war model of social security systems and defined benefit pension (DB) schemes reinforced a fairly stable pattern of lifecycle saving. It did this by prescribing the rate and duration of saving for retirement and retirement age.

Recent switches from defined benefit to defined contribution (DC) pensions, the end of compulsory

annuities and new pension freedoms have created new challenges. Consumers now have to take responsibility for increasingly complex financial decisions in later life. This includes planning for retirement and periods of ill health.

A rise in the proportion of pensioners to taxpayers has led to the pension age rising to 68. This will affect those born between 6 April 1970 and 5 April 1978.¹⁸ The old age dependency ratio (OADR – the number of people over state pension age for every 1,000 people of working age) stood at 310 in 2014. With the planned changes to the pension age, it is expected to rise to 370 by 2039.¹⁹ This may create increased demand for private pension provision or other retirement income products. These may be needed to bridge the gap between desired retirement age and the new state pension age, and to finance long term care products to support the 'oldest old'. There is a clear risk that the savings rate for retirement for many is too low to meet their expectations of income in retirement. DC accumulation rates are typically lower than historical DB rates. This is compounded by low real interest rates. While auto-enrolment and workplace pensions will help, the challenge remains.

13 FCA, *Business Plan 2017/2018*, <https://www.fca.org.uk/publication/business-plans/business-plan-2017-18.pdf>

14 Halifax, *Halifax First-Time Buyer Review*, January 2017 <https://static.halifax.co.uk/assets/pdf/mortgages/pdf/halifax-first-time%20buyer%20review-13-january-2017-housing-release.pdf>

15 Government Office for Science, *Future of an ageing Population*, 2016 www.gov.uk/government/uploads/system/uploads/attachment_data/file/535187/gs-16-10-future-of-an-ageing-population.pdf

16 World Health Organisation, *The European Health Report 2015*, 2015 www.euro.who.int/__data/assets/pdf_file/0008/284750/EHR_High_EN_WEB.pdf?ua=1

17 For more on our research into this, see our Ageing Population Occasional Paper www.fca.org.uk/publication/occasional-papers/occasional-paper-31.pdf

18 Age UK, *Changes to State Pension age* www.ageuk.org.uk/money-matters/pensions/changes-to-state-pension-age/

19 ONS, *UK Perspectives 2016: The changing UK population*, May 2016 <http://visual.ons.gov.uk/uk-perspectives-2016-the-changing-uk-population/>



Between 1991 and 2014, the percentage of 25–34 year olds who owned their own homes fell from two-thirds (67%) to just over one-third (36%).



We are buying houses later and fewer of us are doing so

The distribution of home ownership has shifted away from the young. Between 1991 and 2014, the percentage of 25–34 year olds who owned their own homes fell from two-thirds (67%) to just over one-third (36%).²⁰ In contrast, those aged above 65 saw a significant increase in ownership.²¹ For today's pensioners, this can present a challenge in unlocking the wealth in their homes while younger generations struggle to afford asking prices. In response to these challenges, we have made changes that help firms offer a wider range of lifetime mortgages. We believe there is more we can do. We are consulting on changes to our rules that would make it easier to lend affordably to older consumers, with the borrower committing to pay the monthly interest and the loan eventually repaid when the property is sold. We are also conscious of the trend of consumers approaching retirement with limited pension provision and housing equity, together with the challenges faced by the indebted young.

Low interest rates and high levels of debts since the 2008 financial crisis have changed attitudes to debt

At the time of writing, the official Bank Rate was 0.25% and interest rates have been consistently low since the 2008 crisis.²²

This has supported activity, albeit with lower growth rates, and has also reduced the costs of servicing debt. But it has raised the bar in terms of the savings rate required to produce a given return at much lower real interest rates. While the cost of debt has gone down, creating an incentive to borrow, the cost of accumulating assets to support retirement income or meet other savings goals has gone up.

Through the late 1980s to the early 2000s, household debt²³ was roughly equal to disposable income, but during the financial crisis the household debt-to-income (DTI) ratio reached a peak of 160%. It currently stands at around 140% and is forecast to reach 149% in early 2022.²⁴ The Bank of England's Financial Policy Committee's latest assessment highlights how the rapid growth of consumer credit stands out against a generally benign overall credit environment. While not a material risk to financial stability as a whole, when compared to mortgage lending, defaults in unsecured lending are more likely to happen in a severe economic downturn, posing risks to lenders. There are also risks to consumers, which is a direct concern to the FCA.

Many young consumers have never experienced anything other than near-zero interest rates. The Financial Lives Survey 2017 shows that, although just over half (52%) of those aged 18 to 34 without a savings account, NS&I bond, credit union savings or cash ISA say they don't have any savings or can't afford to save, one in ten (9%) indicate that interest rates are not attractive enough, and a further one in five (19%) use their main current account for saving; furthermore, analysis by PwC shows that the gap between average wage and average house price is considerable.²⁵ With student loan debt and the relative ease of accessing credit, many may come to see high levels of debt as the norm.

²⁰ ONS, *UK Perspectives 2016: Housing and home ownership in the UK, May 2016* <http://visual.ons.gov.uk/uk-perspectives-2016-housing-and-home-ownership-in-the-uk/>

²¹ ONS, *UK Perspectives 2016: Personal and household finances in the UK, May 2016* <http://visual.ons.gov.uk/uk-perspectives-2016-personal-and-household-finances-in-the-uk/>

²² Bank of England, *Statistical Interactive Database - official Bank Rate history, August 2016* www.bankofengland.co.uk/boeapps/iadb/Repo.asp

²³ OECD, *Household debt*; <https://data.oecd.org/hha/household-debt.htm>

²⁴ House of Commons, *Household debt: statistics and impact on economy, June 2017* <http://researchbriefings.files.parliament.uk/documents/CBP-7584/CBP-7584.pdf>

²⁵ PwC, *UK housing market outlook, July 2017* www.pwc.co.uk/economic-services/ukeo/pwcukeyo-section3-housing-july-2017.pdf



Thinking out of the (sand) box: our work to encourage innovation

We encourage firms to adopt new technology models and bring new products to market by supporting them through our Innovation Hub and Regulatory Sandbox. In the first year of our Innovate programme, we helped over 175 innovative businesses, five of which we have now authorised. In addition, our Sandbox has accepted the applications of 55 firms, with a third round of applications planned.

We also encourage innovation that reduces the cost of financial services or extends access to vulnerable consumers. In retail investments, we will assess the developing market for automated advice models ('robo advice') to provide affordable advice for more consumers. The Advice Unit, which provides regulatory feedback to firms developing automated advice and investment management models, now has a broader remit. It now includes firms from the mortgage, general insurance and debt sectors, as well as firms that want to provide guidance rather than regulated advice.

The changing landscape for financial services firms

Many products but no effective choice in some markets

Consumers are often presented with many different options when selecting financial products and services. The volume of products and (perceived) lack of differentiation can make it harder for consumers attempting to research or compare products, hindering shopping around and affecting their ability to switch. Consumers may also buy products with terms or features that do not meet their needs, or trigger additional costs.

For example, as of August 2017, 37 banks offered 189 different current accounts, with an average of 9 different accounts per provider.²⁶ Some consumers do not believe there is a difference between these providers. Of the 1.9 million consumers with a day-to-day (normally current) account held for more than 3 years who have never switched account provider, one in seven (15%) cite this lack of difference between providers as a reason not to switch.²⁷ We see a similar picture in the savings and general insurance markets, with this reason being one of the top three given for not switching for home insurance, cash ISAs and savings accounts.

In well-functioning, competitive markets, firms compete to win business on a range of factors, including quality and service. This in turn drives effective choice and lower prices. We will discuss the potential barriers to this, and how we propose to address them in our Approach to Competition, which is due to be published in due course.

The pace of change and innovation in markets is varied

Over the last decade, financial technology solutions (Fintech) have been growing rapidly. Fintech is bringing new firms into the market and developing far more efficient ways for consumers to save, borrow and invest. We want to use our regulatory toolkit to help stimulate competition and drive innovation across all types of financial services. This means we must strike a balance between promoting better outcomes for consumers while not compromising on consumer protection or the standards we expect from firms. Delivering public value and protecting consumers is not restricted to consumer redress or supply-side interventions – we also need to set frameworks that ensure markets work well.

An example of where regulators are supporting innovation is the New Bank Start-up Unit, run jointly by the Prudential Regulation Authority (PRA) and the FCA. This Unit provides new banks with the information and materials they need to navigate the process of becoming a bank, and tailored supervisory resource during the early years post-authorisation.

Since its launch in January 2016, the Unit has helped ten applicants gain authorisation with a range of products, from mobile-only and technology-driven to a new clearing bank, and many new banks have been authorised.

²⁶ Moneyfacts, August 2017 <https://moneyfacts.co.uk>

²⁷ Post Office Card accounts are excluded.



60%

of unbanked consumers were unaware that banks have to offer everyone a basic bank account, regardless of their credit rating

Source: Financial Lives Survey 2017

Inclusion is beginning to lead to greater access for some consumers

We have seen welcome improvements in firms' awareness of and engagement with vulnerability and access issues. However, in many areas, consumer experiences fall short of the positive outcomes both we and much of the industry are aiming for.

For example, our Financial Lives Survey 2017 shows that awareness of basic bank accounts among the unbanked is low.²⁸ It found that six in ten (60%) of unbanked consumers were unaware that banks have to offer everyone a basic bank account, regardless of their credit rating.

This, together with an increase in digital services and a reduction in physical branches, can create challenges for significant groups of consumers. Outside retail banking, characteristics or circumstances treated as 'non-standard' for the purposes of assessing risk, can also make it difficult for some groups to access other products, such as general insurance.

Recent underwriting advances, such as Big Data, have created more segmented insurance markets. For some consumers, this delivers a fairer premium that more accurately reflects their risk to insurers. However, those with higher risk; such as people with long-term or terminal medical conditions or whom insurers believe to be high risk for reasons that may, for instance, be outdated, could be priced out if they cannot find providers still willing to insure them. This may lead to consumers going uninsured.

In travel insurance, one in seven (15%) consumers with a medical condition said they would not always disclose it, and one in eight (12%) travelled uninsured in 2016.²⁹ This could lead to significant harm to

individuals' health and finances, even though this is not necessarily the fault of poor product or price offerings by insurers.

How firms present choices and information to consumers is improving - but inertia remains a challenge

We want to enable consumers to buy the financial products and services they need. This means creating sales and marketing environments which are clear, fair and not misleading and help consumers to make good decisions. Many firms have improved the way they present choices and information to consumers in certain markets, including increased use of smarter and personalised disclosure. Other firms are considering how to deliver better experiences to consumers during switching processes.

Our Financial Lives Survey 2017 shows that many people in certain sectors think it is too hard to be an active consumer. For example, six in ten (60%) consumers have kept their day-to-day account with the same provider for 10 years or more. Similarly, only 6% of consumers have switched their day-to-day (normally current) account provider in the last three years.³⁰ Survey evidence might not give us the full picture about the reasons for not switching; people are often not consciously aware of the reasons why they do or do not make decisions. This is an area where experimenting with different types of information and the way consumers use it can help us understand what would help them make more active choices.

In fact, large numbers of consumers do not make active decisions. Instead, they rely on the status quo or 'default' options, such as sticking with their current provider and not shopping around at renewal. Our Financial Lives Survey 2017

²⁸ The unbanked are those with no current account or alternative e-money account

²⁹ Mintel Group Ltd, *Travel Insurance February 2017*, 2017 http://reports.mintel.com/display/792383/?__cc=1#

³⁰ Post Office Card accounts are excluded



shows low rates of switching across more types of retail products—for example, only [3%]³¹ of those holding mobile phone insurance and 6% of adults with a day-to-day (normally current) account switched their provider in the last three years.³² Similarly, five in eight (63%) UK adults with one or more DC pensions did not choose (or don't know if they chose) where their pension contributions were invested when they joined/ set up their DC pension(s).

We will continue to conduct in-depth behavioural research to support our interventions where we identify that inertia is a key factor in the harm we find. Behavioural 'nudges' can be used helpfully to encourage consumers to make more effective and timely decisions. So we will continue to run trials with firms to expand our knowledge in this area, such as our field trial work to test how different methods and framing of information can be used to encourage consumers to claim redress.³³

Information asymmetries and behavioural biases are influencing consumer behaviour in some markets

Information asymmetries (where firms have more information about products than consumers) are a cause of significant potential harm. A consumer who does not have access to all the relevant product information, such as all the costs, will not be in a good position to make sound financial decisions.

Many financial products and services are complicated and have complex terms and conditions. Consumers can find large amounts of information and details about product features, risks, benefits, costs and terms, overwhelming and more than they can mentally process, potentially leading to poor decisions. Other regulators have identified evidence of suppliers creating pricing structures, terms and features that are unnecessarily confusing. This makes it difficult for consumers to evaluate and compare products and so prevents them from effectively shopping around. We will use our regulatory tools and powers to address these issues, and intervene to prevent actual or potential harm where firms themselves are not addressing them.

Similarly, behavioural biases sometimes impede consumers' ability to make choices that are in their best interests.

For example our Credit Card Market Study³⁴ found that biases tend to lead to consumers over-borrowing and under-repaying. These biases include framing effects such as consumers perceiving costs given in percentages as smaller than the same costs in pounds. They can also involve the potential anchoring or targeting effect of minimum repayment amounts where one piece of information heavily influences consumer choices of payment amounts.³⁵

31 In this paper square brackets around percentages indicate results based on 50 to 99 unweighted observations, which means that results are indicative. For further information, see Reporting conventions in Appendix 2 (Methodological notes) of the Financial Lives Survey 2017 Report

32 Post Office Card accounts are excluded. Where customers held more than one product of that type, we asked them to think about the product they took out most recently. For a full list of switching rates by product, please see the Financial Lives Survey 2017 Report www.fca.org.uk/publication/research/financial-lives-survey-2017.pdf

33 FCA, *Occasional Paper No.2, Encouraging consumers to claim redress: evidence from a field trial, April 2013* www.fca.org.uk/publication/occasional-papers/occasional-paper-2.pdf

34 FCA, *Credit Card Market Study – Final findings report, July 2016* www.fca.org.uk/publication/market-studies/ms14-6-3-credit-card-market-study-final-findings-report.pdf

35 FCA, *Credit Card Market Study – Final findings report, July 2016* www.fca.org.uk/publication/market-studies/ms14-6-3-credit-card-market-study-final-findings-report.pdf



Protecting consumers from excessive charges

High-cost short-term credit

We have previously taken action to protect consumers from practices that carry a high risk of harm. We capped the total amount that payday lenders can charge; making sure consumers will never need to pay back more than twice what they have borrowed. We also capped the daily interest at 0.8%. This cap helps consumers avoid entering a damaging spiral of debt, especially consumers who are financially vulnerable. And we see evidence that, for many consumers, being declined access to HCSTC had a positive effect - with five in eight (63%) stating they thought it was 'for the best'.

We have also significantly strengthened our regime, driving up standards across this sector using our full range of tools. This includes using our authorisations process to scrutinise firms and ensure they meet our conditions, making policy interventions to introduce a price cap, restrictions on rolling over debt, strengthening risk warnings and changing how recurring payments are collected. Our supervision work has also resulted in payday lenders paying over £300 million in redress to customers.³⁶

Rules on credit broking and fees

In 2015, we introduced new rules to address concerns about the practices of some credit brokers who were charging upfront fees to consumers.³⁷ These rules banned credit brokers from charging fees to customers or requesting customers' payment details to do so unless the brokers met specific conditions.

We have consulted on potential remedies to resolve these issues, including a requirement for firms to monitor customers' repayment records and make reasonable efforts to intervene when they see signs of potential financial difficulties.³⁸

We have also introduced new rules to prevent firms from marketing non-mainstream pooled investments to retail customers, ensuring these products are only promoted to sophisticated investors.

Consumers today

Many have low financial resilience - and not just those on a low-income

Consumers' capacity to absorb financial shocks is an important factor in reducing harm when things go wrong. Our Financial Lives Survey 2017 indicates that one-fifth (19%) of the population lives on an annual household income of below £15,000, and a similar proportion (21%) of UK adults say they could not cover expenses for more than a month if they lost their main source of household income. 14.5 million British adults (29%) say they had no spare money to put aside as rainy day savings in any of the previous 12 months.³⁹

This vulnerability also affects consumers paying a mortgage or rent or who live in sheltered accommodation. Almost three in ten (29%) of them said they would

³⁶ FCA, High-cost credit and review of the high-cost short-term credit price, July 2017 www.fca.org.uk/publications/feedback-statements/fs17-2-high-cost-credit

³⁷ FCA, Credit broking and fees, January 2015 www.fca.org.uk/publications/policy-statements/ps14-18-credit-broking-and-fees

³⁸ FCA, Consultation Paper CP17/10, April 2017 www.fca.org.uk/publication/consultation/cp17-10.pdf

³⁹ StepChange, *Almost a third of Brits saved nothing in the last 12 months*, February 2017 www.stepchange.org/Mediacentre/Pressreleases/NosavingsforalmostthirdofBritslast12months.aspx



struggle to meet their monthly mortgage, loan or rent payment if it increased by less than £100. Our Mortgage Market Review⁴⁰, published in 2014, brought in more stringent affordability rules, intended to increase financial resilience in the mortgage sector in the long term. We will continue to track how many consumers face affordability problems through our Financial Lives Survey and supervise firms to ensure that they lend responsibly.

Consumers with low financial resilience may be particularly at risk of harm. They are more likely to have a reduced choice of financial products and services. For example, our Credit Card Market Study⁴¹ findings indicate that higher credit risk 'low and grow' consumers with a credit card have less choice of products and providers than lower risk consumers.⁴² Four firms accounted for virtually all balances for this higher risk group. A quarter (25%) of these consumers who did not shop around said it was because they did not think they would be accepted for another card. We saw similar findings amongst active higher credit risk users where one in six (17%) said they chose their credit card because it was the only card they thought they would be accepted for (compared to 2% of the rest of the population).⁴³

Consumers find product information complex

Financial products can be complex and consumers often find the way product information is presented feels challenging to understand. For example, our general insurance add-ons Market Study⁴⁴ tested consumers' understanding by asking simple questions about their cover. The results showed that those

who had bought their insurance as an add-on got 54% of questions incorrect or stated they were not sure of the answer. Documents provided by firms often appear to assume an unrealistic level of knowledge, and information given over the phone can be complex, scripted and delivered without addressing individual customer needs.

Our Financial Lives Survey 2017 supports these views. A few (6%) consumers with a day-to-day (normally current) account say that they have had a problem with it involving product disclosure information (such as information about fees and benefits) in the last 12 months. One in eight (13%) who had taken out a mortgage in the last three years said they had not understood what was going on at each stage of the application, while one in three (32%) consumers with a mortgage said they did not find mortgage products easy to understand.

The proportion of consumers misunderstanding product information may actually be higher than this. As an example, we have worked with the University of Chicago Booth School of Business to analyse browsing data provided by an online investment platform. The analysis showed the platform's customers engaged with charges during fewer than 9% of visits (excluding visits to fund landing pages), and under 3% engaged with documents on the sidebar of the website, including Key Information Documents.

1 in 3

consumers with a mortgage said they did not find mortgage products easy to understand.

40 FCA, *Embedding the Mortgage Market Review: Responsible Lending Review*, May 2016 www.fca.org.uk/publication/thematic-reviews/tr16-04.pdf

41 FCA, *Credit Card Market Study – Final findings report*, July 2016 www.fca.org.uk/publication/market-studies/ms14-6-3-credit-card-market-study-final-findings-report.pdf

42 'Low and grow' consumers are consumers with a credit card designed for someone with 'no credit or poor credit history'

43 Active credit card user is defined as a user with one or more credit cards who has used at least one card in the last 12 months.

44 FCA, *General insurance add-ons*, March 2014 www.fca.org.uk/publication/market-studies/ms14-01.pdf



Some consumers remain unwilling or unable to access the services of a financial adviser, which means they make often complex choices without support.



Many consumers are not opting for advice

The financial advice market has undergone many changes in the past few years. New rules introduced as part of the Retail Distribution Review have had a positive impact on the retail investment advice market.⁴⁵ However, consumers in some markets remain unwilling or unable to access the services of a financial adviser, which means they make often complex choices without support. For example, we have seen that since the Pension Schemes Act 2015⁴⁶, many consumers have opted for income drawdown. More than twice as many pots are moving into drawdown than annuities⁴⁷, yet the proportion of drawdown bought without advice has risen from 5% before the freedoms to 30% now.⁴⁸ Drawdown is complex and consumers need to manage investment risks by choosing appropriate investment and withdrawal strategies. We are currently carrying out research with firms and consumers to investigate the effect of non-advised drawdowns, including the risk of potential harm if consumers make inappropriate choices. We have also recently consulted on how pension transfer advice should be provided to consumers to ensure that financial advice fully considers the consumer's circumstances. Both our Retirement Outcomes Review and Asset Management Market Studies have resulted in us proposing a number of remedies, which we will support through our ongoing supervisory activity.

Some consumers don't know where to turn when things go wrong and the complaints system doesn't always work

In 2014, we issued a consultation paper which looked at the complaints handling procedures for financial services firms⁴⁹, and subsequently made new rules to improve their procedures. This has played a vital role in protecting consumers, and helped improve firm behaviour in complaints handling.

However, the complaints processes may not be consistently meeting the needs of all consumers. While most consumers who don't complain say they believe it isn't worth it, our work reveals that, for some, the lack of clarity of relevant processes has discouraged them from complaining. Our Financial Lives Survey 2017 also indicates that three in eight (37%) of those with a day-to-day (normally current) account have not heard of the Financial Services Compensation Scheme (FSCS).

Our Financial Lives Survey 2017 shows that consumers experiencing problems with their financial products (eg unexpected fees) typically show more characteristics of potential vulnerability than not, although not for pensions and retail investments which fewer potentially vulnerable adults hold. For retail banking, three in four (74%) of those experiencing problems show characteristics of potential vulnerability and for consumer credit the figure is 85%.⁵⁰ However, potentially vulnerable consumers are more likely than non-vulnerable to say they wanted to complain but didn't ([27%] and [17%], respectively). Over four in ten (46%) potentially vulnerable consumers told us that they do not have confidence in the

45 FCA, Post-implementation review of the Retail Distribution Review – Phase 1, Dec 2014, <https://www.fca.org.uk/publication/research/post-implementation-review-rdr-phase-1.pdf>

46 Department for Work and Pensions, *Pension Schemes Act 2015*, August 2014 www.gov.uk/government/collections/pension-schemes-bill-2014-to-2015

47 FCA Data bulletin (Issue 10) www.fca.org.uk/publication/data/data-bulletin-issue-10.pdf

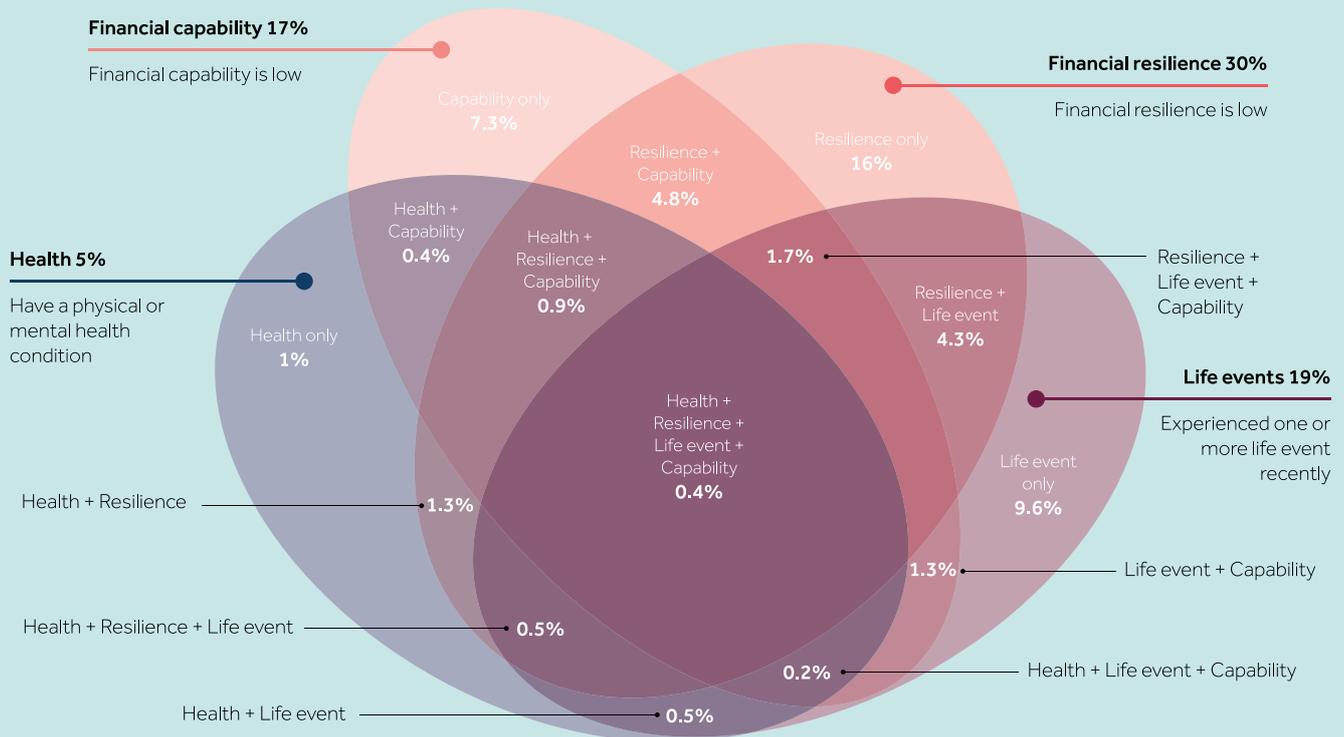
48 FCA, *Retirement Outcomes Review Interim Report*, July 2017 www.fca.org.uk/publication/market-studies/retirement-outcomes-review-interim-report.pdf

49 FCA, Improving complaints handling, Dec 2014, www.fca.org.uk/publications/consultation-papers/cp14-30-improving-complaints-handling

50 Consumers of credit products appear to show considerably higher levels of problems – 8% (unprompted) and 27% (prompted) – but, due to a programming oversight, the Financial Lives Survey 2017 only asked these questions of those who had taken out products recently (rather than a sample representative of all UK adults with consumer credit, as should have been the case). Arguably, this population is more likely to have experienced problems due to more recent engagement with providers.



Figure 2: Potential vulnerability – combined characteristics



financial services industry, compared with three-eighths (39%) of non-vulnerable consumers.

Vulnerable and excluded consumers

Vulnerable consumers

Defining vulnerability can be difficult. Vulnerability can take different forms which can be obvious or hidden, permanent or temporary. Individual consumers may accept and acknowledge or disagree and not recognise that they are experiencing vulnerability.

We have previously defined 'vulnerable' consumers as those who are especially susceptible to harm because of their circumstances.⁵¹ Vulnerability is also often related to the individual's particular context or circumstances when using financial services. Although identifying vulnerable consumers will never be an easy or prescriptive process, we

have built on our initial definition in our previous publication on vulnerability to provide more clarity. We do not believe that this is imposing new expectations on firms, or a change of direction from the encouraging progress we have seen in this area. Instead, we are updating our position to ensure we can respond in a more nuanced way that enables us to adapt our regulation to changing conditions. It will also enable us to include more transient or intermittent types of vulnerability.

Our definition of vulnerable consumers are:

- people who can readily be identified as significantly less able to engage with the market, and/or
- people who would suffer disproportionately if things go wrong⁵²

So that we can better target interventions, we have divided the causes of vulnerability into four categories (as shown in Figure 2).

⁵¹ FCA, Occasional Paper No. 8: Consumer Vulnerability, February 2015 www.fca.org.uk/publication/occasional-papers/occasional-paper-8.pdf

⁵² This is the FCA's overall definition of vulnerable consumers, which is not the definition used in the Financial Lives Survey 2017, as explained later in this section.



Using the Financial Lives Survey 2017, we define consumers as 'potentially vulnerable' according to the answers they give to specific questions in the categories below.⁵³

'Health' - UK adults who say their ability to carry out day-to-day activities is reduced a lot through health conditions or illness – 5% fell into this category. For example, this could include a consumer struggling with memory loss who struggles to carry out day-to-day activities as a consequence.

'Resilience' - UK adults who lack or have low financial resilience, which indicates how exposed some consumers are to plausible increases in interest rates and prices or a small change in their circumstances. For example, a consumer who would struggle to pay their mortgage if it increased by less than £50 a month. Consistent with external reports, 30% of UK adults have been identified as having low financial resilience, based on their own answers to specific questions.

'Life events' - These are major events happening in the last twelve months, such as divorce, redundancy or the death of a close family

member. An event like this happened to 19% of UK adults or their partner.

'Capability' - Defined as very low knowledge of financial matters or low confidence in managing money – 17% of people were identified as having low capability.

Figure 2 (on the previous page) highlights that potentially vulnerable consumers may suffer from more than one type of vulnerability at the same time, which may make them especially susceptible to harm. For example, our findings suggest that as many as 2.2 million consumers are at risk of increased harm from financial shocks and have also experienced a life event in the last twelve months.

We have been clear in our Occasional Papers that any consumer could be vulnerable at some point in their life, for example through serious illness or bereavement. We expect firms to pay attention to possible indicators of vulnerability and have policies in place to deal with consumers who may be at greater risk of harm. As potential harm does not develop into real harm for the majority, balanced action is needed between firms' wider stakeholders and the FCA

to protect vulnerable consumers while ensuring they can access mainstream markets.



We will take any exploitation of vulnerable consumers very seriously, including using the toughest enforcement action open to us.



⁵³ For more information on the definition of potential vulnerability, please see the Methodological Notes in the Financial Lives Survey 2017 Report



Potentially vulnerable consumers are less satisfied with financial services

There are significant differences between the satisfaction levels of potentially vulnerable and non-vulnerable consumers. We do not know whether this is because financial services are not meeting the needs of vulnerable consumers, or simply that vulnerable consumers encounter more situations where problems may arise.

Our Financial Lives Survey 2017 data show that under half (46%) of potentially vulnerable consumers do not have confidence in the financial services industry, compared to two-fifths (39%) of non-vulnerable consumers. At a sector level, one-quarter (24%) of potentially vulnerable consumers with a day-to-day account give a satisfaction score of 0 to 6 to their account provider compared to one-eighth (13%) of non-vulnerable consumers giving the same score. We also know that vulnerable consumers often feel they will be dissatisfied or poorly treated because of their vulnerability. One in four people living with cancer, for example, feel the financial services industry unfairly discriminates against them.⁵⁴

Excluded consumers

Consumers can be excluded from financial products for many reasons. One well-known cause is the digital transformation of financial products coupled with groups of consumers who have low digital skills. Other reasons include consumers who can't afford, or simply do not want, to be online. We have outlined many other causes in our previous research into access to financial services.⁵⁵

- 9.5 million people in England and Wales do not have a passport⁵⁶
- 86% of former prisoners say their conviction makes it harder to get insurance⁵⁷
- 3.8 million UK households are without internet access⁵⁸

Bank accounts are also essential for many forms of employment and using cards, direct debits and standing orders is the norm in our increasingly cashless society. However, in the UK, 1.3 million people (3%) have no form of bank account, although nearly 315,000 of these people previously had a current or e-money account.

Basic bank accounts can offer a solution for many who struggle to open an account. They are designed for consumers who do not have, or do not qualify, for a standard bank account, such as those with a poor credit history. However, six in ten (60%) of the unbanked are unaware of basic bank accounts. Nine of the largest banks are required to offer basic bank accounts.

Having regard to access forms part, of our competition duty. We will look in particular at where markets do not provide access to certain kinds of services, or to particular consumer groups. We will seek to develop practical strategies to tackle access problems, working with firms and stakeholders. However, ultimately any decision to place additional economic obligations upon firms to achieve access is a matter for Government and Parliament.



We will look in particular at where markets do not provide access to certain kinds of services, or to particular consumer groups.



54 Macmillan, *In the Balance- The banking sector's vital role in supporting people with cancer*, 2017 https://www.macmillan.org.uk/_images/MAC16756-In-The-Balance-Report-ENG-Web_tcm9-313924.pdf

55 FCA, *Occasional Paper No. 17: Access to Financial Services*, May 2016 www.fca.org.uk/publication/occasional-papers/occasional-paper-17.pdf

56 ONS, *2011 Census: Key Statistics for England and Wales*, March 2011 www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/bulletins/2011censuskeystatisticsforenglandandwales/2012-12-11

57 Unlock, *Written evidence to the Financial Inclusion Commission*, 2014 http://www.financialinclusioncommission.org.uk/uploads/written/Unlock_-_response_to_UKFIC.pdf

58 ONS, *Internet Access - Households and Individuals: 2015* <https://www.ons.gov.uk/peoplepopulationandcommunity/householdcharacteristics/homeinternetandsocialmediausage/bulletins/internetaccesshouseholdsandindividuals/2015-08-06>



Section 3:

Our vision of a well-functioning market, and how we will work to achieve it

Our vision is for well-functioning markets that benefit everyone. In this section, we set out the four outcomes we would expect to see if this vision was achieved and against which we will measure progress. For example, to measure how far we are achieving our inclusion outcome, we might measure the proportion of the population without a bank account who say they want one. Our vision is aspirational.

The way in which we exercise our powers and duties, together with our expectations of firms and their treatment of customers plays a key role in achieving our vision. It also requires the co-ordination and collaboration of many parties, including firms, regulators, consumers, Government and charities. We cannot achieve this vision alone and we understand that it requires complex trade-offs between protection and personal choice.



Our vision is for a well-functioning market that works for consumers.

1. When competition is working well and when we observe market integrity we will see:

Consumers are enabled to buy the products and services they need because the environment in which they are sold is clear, fair and not misleading with a good choice architecture.

In markets with effective choice architecture (sales, disclosure or marketing environment that enables consumer to make good decisions), we would observe the following outcomes:

- Where consumers are active and able, it is easy for them to get relevant information and to switch to better products
- Where consumers intend to be more active and able, they are supported to become so
- Where consumers cannot be, or face constraints in being active and able, they are matched with products that better meet their needs wherever possible

Products: high-quality, good value products and services that meet consumers' changing needs.

In markets where consumers are offered good products and services, we would observe the following outcomes:

- A range of products offered by a range of suppliers
- Good-quality products and services that meet consumer needs
- Competitively priced products that are value for money

2. Where markets are working well for consumers we will see:

Inclusion: everyone is able to access the financial products they need and the needs of vulnerable consumers are taken into account.

In markets where consumers are fairly included, we would observe the following outcomes:

- Fair treatment and fair risk pricing mean consumers are not unduly excluded
- All consumers can access basic financial services
- The needs of vulnerable consumers are taken in to account

Protection: consumers will be appropriately protected from harm.

In markets where consumers are well protected, we would observe the following outcomes:

- Consumers are not exposed to deceptive or unfair practices by financial services firms
- Consumers are provided with the appropriate level of protection against fraud and scams
- When things go wrong, there are mechanisms in place to secure redress
- Where appropriate, consumers are prevented from taking out products that carry a high risk of harm

Section 3

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Financial Conduct Authority

FCA Mission: Our Future Approach to Consumers



Our strategy for delivering this vision has three themes:

Regulating for the real world - we regulate on behalf of all consumers, regardless of ability or vulnerability. This means that we need to stay one step ahead on data and analysis, and design remedies around real, rather than ideal behaviour.

Regulating for vulnerable and excluded consumers –our Mission makes clear we intend to prioritise the needs of the most vulnerable and least resilient groups. We will collect information to diagnose and monitor potential harm, working with other organisations and using our convening powers to bring different

bodies together where we do not have the power to address problems alone.

Regulating for the future – this section describes our commitment to supporting innovation as well as those who are negatively affected by change, making sure we stay one step ahead and prepare for key shifts that increase the risk of harm or affect how consumers engage with financial services.

Within our strategy for achieving this vision, we must consider how we will prioritise our actions. In our Mission 2017 we discussed how the identification of harm, or potential harm, will drive our decision making.

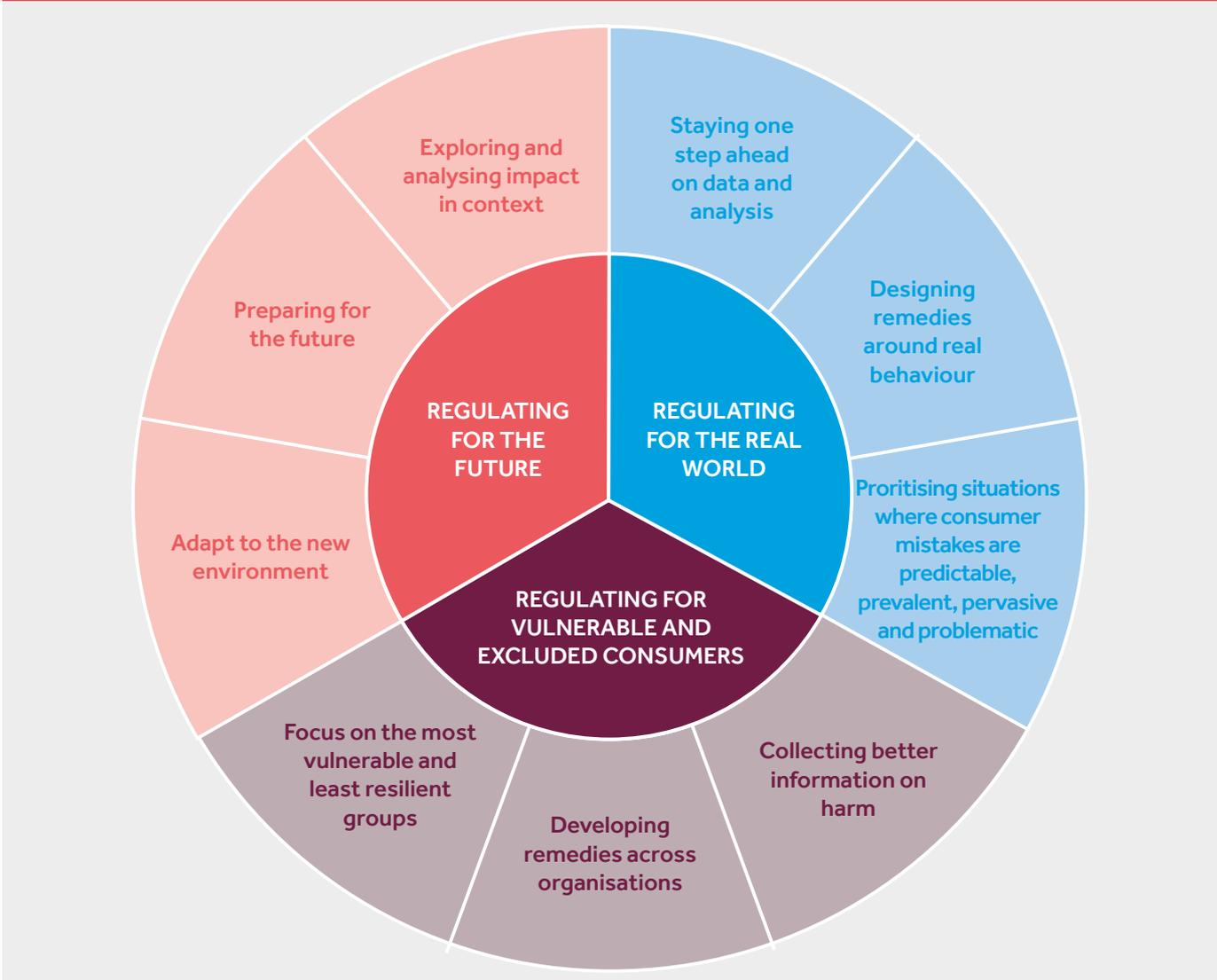
We will work to gather and use information on harm to inform our prioritisation of actions.

How we will use information on harm to prioritise our actions

Our Mission 2017 describes how and why we prioritise, protect and intervene in financial markets. We will do this by assessing where financial markets and services are potentially causing harm to consumers.

In order to do this we will collect a diverse range of robust information and evidence from a range of activities to identify potential

Figure 3: Our plan for how we will work





harm. These include day to-day supervisory contact with firms, calls from consumers to our contact centre, analysing intelligence from whistleblowers and evaluating complaints data. Our Financial Lives Survey also provides vital data to help us identify trends, problem areas and emerging harm.

However, simply identifying potential harm does not necessarily mean that we will act.

Before acting or intervening we need to clearly define the issue involved – and make sure that we understand exactly how it may harm different groups of consumers, including those who are most vulnerable, or excluded. We need to assess the cause, extent and potential development of the issue, as well as the risk it poses to our statutory objectives. We also need to decide whether we have enough information to assess the issue properly, or if we need to carry out further work to find out more. We may choose one or more of our diagnostic tools, including:

- individual firm analysis
- Section 166 FSMA powers / 'skilled person' reports
- data analysis
- investigations
- multi-firm work and thematic reviews
- market studies
- policy work

Once we understand the potential harms, we can then consider whether they can be resolved entirely or only reduced. We assess the range of our available regulatory tools and make a judgement about whether these can remedy or mitigate the harm cost-effectively.

The tools we can use to address harm are not limited to supervisory or enforcement action. Where a problem is systemic or market wide we may consider policy changes rather than firm-specific interventions. This can include rule changes, publishing guidance, or communicating with firms or customers. We may use our authorisations regime to ensure that individuals are 'fit and proper' and

firms meet our threshold conditions before entering the market, and vary or remove permissions if we are concerned about negative consequences of a specific firm's behaviour.

Our Mission included a commitment to publish a number of documents providing a clearer explanation of the way we carry out our main activities. We intend to publish our Approaches to Supervision, Enforcement, Competition and Authorisations in advance of our next business planning round to give more detail on our priorities and approach.

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Regulating for the real world

'Consumers today have to make a bewildering array of decisions on everything from energy suppliers to insurance products. We often turn to rules of thumb to make these judgments, such as 'shop around for the best price'... Once we know the rules of thumb people use, and the way these rules tend to err, we can design consumer protections that are both less intrusive and more effective.'

Citizens Advice/Behavioural Insights Team (2016)

We are all human and are susceptible to making mistakes, or taking decisions that are not in our own best interests. Behavioural research shows us that consumers are not the economically rational 'super consumers' our models might predict. Regardless of capability or vulnerability, all consumers experience situations that challenge them or might cause them harm.

Our commitment to all consumers

We use behavioural economics to help us understand and address competition concerns. We will continue to build an understanding of psychology into regulation and policymaking; to take account of real consumers, their preferences and the issues they face in making choices. This includes investigating and testing nudges and effective defaults, continuing to build behavioural analysis into Competition Market Studies, and evaluating the impact of our actions.

Under the microscope: using micro-data to inform policy

We are using current account and credit reference agency datasets to assess potential harm from unarranged overdrafts. Our analysis showed that a substantial minority of consumers use unarranged overdrafts repeatedly or persistently over the course of a year and account for a high proportion of charges. We are concerned that consumers who repeatedly use unarranged overdrafts are being given access to a service that seems unsuitable for them, and which may be contributing to potential financial distress. We will now consider whether and to what extent consumers suffer harm from persistent use of arranged or unarranged overdrafts and whether we should intervene as we are doing in the credit cards market to reduce persistent debt.



Staying one step ahead on data

We will use data more effectively to identify consumer harm and will harness technological change and academic evidence for the benefit of consumers. This includes analysing rich micro-data on the context in which consumers' make choices and their behaviour, for example, when browsing online. We will scrutinise our data sources to ensure we are using them as widely and thoroughly as possible.

We will also collect data from new sources and in new ways to diagnose and investigate harm. Where required to fill gaps, we may ask firms to report additional data to us.

This work will help to ensure we remain on the front foot, recognising that the firms we regulate monitor and use data in increasingly sophisticated and targeted ways, and so we must do the same.



Designing remedies around real behaviour

We will continue to design remedies based on how individuals in markets behave in practice, rather than just according to conventional economic theory. This may mean going beyond issues of 'disclosure' (the product information that firms give potential and current customers) and considering how we can drive improvements in communications, sales and marketing environments to enable customers to buy the products and services that they need. Our extensive testing has shown greater disclosure often leads to only marginal changes in behaviour. So, while there may be areas where consumers could benefit from receiving more or different information, we should also go beyond this. This may include considering the use of 'cooling-on' periods which would give consumers additional time to confirm if they definitely want a product; smart defaults ensuring consumers are automatically defaulted to the best option for them; personalised friction, allowing customers to create tailored log-ins and adjust their own account settings to help control unwanted spending habits; and other remedies that are purely about consumer information.

We know that timely, accurate, personal and actionable disclosures have most effect for consumers. Yet many existing regulatory requirements, compounded by firm behaviour do not achieve this.

Full disclosure: communicating effectively

In June 2015, we launched our Smarter Consumer Communications initiative⁵⁹ to help improve our understanding of the opportunities and challenges of consumer communications in the digital age. We particularly wanted to know whether our requirements on firms to provide specific information to consumers prevented digital innovation that could improve the effectiveness of firms' communications. Ultimately we wanted to ensure that the regulatory framework:

- supports consumer communications that are clear and simple to understand
- encourages the use of new technologies to present things in ways that interest and engage consumers

Disclosure rules have long been an important aspect of financial regulation; they play a key role in overcoming asymmetric information between suppliers and consumers and enabling consumers to make better decisions. Our Smarter Consumer Communications initiative works to refine and enhance these long-standing disclosure rules.

In our October 2016 Smarter Consumer Communications feedback statement,⁶⁰ we announced several initiatives to help improve the regulatory framework for consumer communications. One of these was to develop and consult on new, non-Handbook guidance on consumer communications to encourage innovation while providing clarity on our rules and regulatory expectations. We have also taken a number of other steps to address issues raised by firms. These include:

- consulting on amendments to some disclosure-related rules and guidance in our Handbook to allow firms to take a more targeted and proportionate approach
- publishing a webpage explaining the 'durable medium' concept as a result of technological developments
- holding a roundtable with the industry and consumer representatives to discuss how we could work together to improve terms and conditions

Firms should also note that Principle 7 requires firms to 'pay due regard to the information needs of their clients' and to 'communicate information to them in a way which is clear, fair and not misleading'. We will continue to test our interventions as far as possible. For example, testing information prompts in the annuities market enabled us to develop templates that should encourage a significant and ongoing increase in shopping around. We will continue to explore and test behaviourally-informed information remedies, including comprehension tools and 'just-in-time' education.

Across all markets, we will continue to review our existing requirements, test our new proposals thoroughly, publish our learning and ensure that we continue to engage with, and learn from, experts in the field such as behavioural and data scientists and multidisciplinary academics.

59 DP15/5 – Smarter Consumer Communications, FCA (2015): <https://fca.org.uk/publication/discussion/dp15-05-smarter-consumer-communications.pdf>.

60 FS16/10 – Feedback Statement: Smarter Consumer Communications (2016): <https://fca.org.uk/publication/feedback/fs16-10.pdf>.



Only human: designing remedies that go with the grain of behaviour

Our programme of behavioural research has contributed to all stages of our decision-making process, including informing Competition Market Studies which identify harm and help develop policy intervention remedies. We have either completed, or are currently carrying out, focused behavioural research on general insurance add-ons, general insurance auto-renewal, cash savings, structured deposits, payday lending, credit cards and personal current accounts.

We are currently carrying out behavioural trials with a number of credit card firms to test the effect of different ways of presenting repayment options to find ways to 'nudge' or encourage people making low repayments to repay more where they can afford it.

In addition to undertaking primary research, we also run a programme which applies evidence from psychology and behavioural insights to practical regulatory questions. This aims to help regulators make more effective and efficient decisions.

Prioritising situations where consumer mistakes are predictable, prevalent, pervasive and problematic

While mental shortcuts often allow people to make efficient and rewarding decisions, they can sometimes lead to poor decisions. For example, most people tend to be affected by present bias which makes us discount future gains in favour of (smaller) present ones. In some cases, products and services may be designed or advertised to take advantage of these shortcuts.⁶¹ We will act where we see errors made by consumers that are **predictable** (so that we can act), **prevalent** (affecting many people), **pervasive** (long-lasting) and **problematic** (causing harm).

Situations designed to exploit consumer limitations, such as unfair terms hidden in lengthy disclosure documents or misleading advertising, may lead consumers into making bad decisions. We will continue to enforce our financial promotions and consumer contract rules to prevent harm.

In some cases, firm activities that exploit behavioural biases may limit effective competition in

the interests of consumers. For example, firms may sell add-on products as part of the purchase of a main product (eg travel insurance sold as an add-on to a holiday purchase). This makes the add-on look cheaper than if it was sold as a standalone product and is referred to as 'anchoring'. Consumers tend not to be price-sensitive in these circumstances. This leads to many expensive insurance offers being accepted without conscious thought or research⁶², limiting the ability of competing firms to potentially drive down prices. We will continue to take account of behavioural biases in our competition work and explore remedies that improve competition and protect consumers as they are, rather than as we might like them to be.

We are also of the view that there are opportunities for firms and others to use positive choice architecture which takes into account consumer needs, rather than just commercial or administrative considerations. For example, this could mean influencing consumers to make active choices where their preferences are unknown, such as by providing timely and behaviourally-informed prompts at product renewal. It could also

mean choosing a 'default' product when consumers fail to engage, such as a default pension saving strategy, which fits the needs of the greatest number of consumers. We will be vigilant against the risk that firms design disclosure or marketing that is unfair, unclear or misleading, or create sales environments (embedding choice architecture) which encourage bad rather than good decisions.

⁶¹ FCA, *Occasional Paper No. 26: From advert to action: behavioural insights into the advertising of financial products*, April 2017 www.fca.org.uk/publication/occasional-papers/op17-26.pdf

⁶² FCA, *Occasional Paper No. 3: How does selling insurance as an add-on affect consumer decisions?* March 2014 www.fca.org.uk/publication/occasional-papers/occasional-paper-3.pdf



Predictably irrational: asset management market study

In our Asset Management Market Study, we saw large numbers of consumers suffering harm - lower returns - through choosing expensive funds. This could be due to the way that consumers interact with advertising and disclosures. This is particularly relevant with the presentation of past performance in comparison to information on costs and charges (which sometimes feels less transparent and more complex to the consumer). The theory behind such choices is well-established and documented, so this mistake is predictable. We set out a package of proposed remedies, including increasing the transparency of costs and strengthening the duty on asset managers to act in the best interest of investors. We are also testing ways to improve the effectiveness of disclosures. We want to understand what role the prominence and formatting of information about cost and charges plays in encouraging investors to focus on the impact of charges on their investment, and enabling more effective price comparison.

Regulating for vulnerable and excluded consumers

'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 from now. I found this quite distressing and unnecessary.'

Consumer living with cancer, Surrey

All consumers may struggle in certain situations and require protection, but some consumers have a significantly higher likelihood of suffering harm and/or suffer disproportionately.

Vulnerable consumers are not an identifiable, static and small subgroup; instead, vulnerability is widespread and can often be temporary. Consumers who experience vulnerability may have needs that are more challenging and complex than the average consumer. This means that tackling consumer vulnerability requires solutions and interventions that go beyond our general approach to protecting consumers.

We see a similar story for access. Our research shows that excluded groups often have little awareness of providers and products suitable for their needs. This is backed up by several other studies including the House of Lords Committee on Financial Exclusion which sets out a number of recommendations to improve issues for consumers most at risk of exclusion.⁶³ The National Audit Office also recently highlighted some of the circumstances and characteristics which can affect well-being and inclusion, and that vulnerability and access issues are often linked.⁶⁴ For example the report found that around 3 million

disabled people have been denied insurance or charged extra because of their condition and an estimated 310,000 households may be using illegal money lenders because of limited or no access to legal credit.

In May 2016, we published an Occasional Paper exploring issues around 'Access to Financial Services in the UK'. Amongst other topics, our paper discussed problems some consumers can face when trying to find insurance that meets their needs – considering whether they can find insurance at all, or at a price they can afford. The paper also recognised how some consumers who previously had good access to insurance products can find they have become marginalised. For example, those who have previously been, or currently are, suffering from an illness may find they can no longer access insurance products with the ease they used to.

We identified the consumer quoted above through this work. Their experience reflects that of many others who participated in our research programmes and Financial Lives Survey 2017.

We have been keen to understand how consumer outcomes can be improved in this area, whether by traditional methods or through innovation. We issued a Call for Input on Access to Insurance in June 2017. This invited views on the challenges firms face in providing travel insurance for consumers who have, or have had cancer, as well as the rationale for pricing differences in quoted premiums. Although our paper focused on travel insurance for a specific consumer group, we expect our findings will broadly apply to other pre-existing medical conditions, and also to other protection products.

63 Select Committee on Financial Exclusion, *Tackling financial exclusion: A country that works for everyone?* March 2017 <https://publications.parliament.uk/pa/ld201617/ldselect/ldfinexcl/132/13202.htm>

64 NAO, *Vulnerable consumers in regulated industries* www.nao.org.uk/report/vulnerable-consumers-in-regulated-industries/

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FCA Mission: Our Future Approach to Consumers



This Call for Input represented the first stage in our broader engagement to improve our understanding of the issues that vulnerable or excluded consumers face in accessing different financial markets. We will publish a Feedback Statement with our findings and set out our next steps in light of the responses.

Our commitment to vulnerable and excluded consumers

We have identified three key commitments that will define our Approach to vulnerable and excluded consumers in the future. These commitments will ensure our approach is well informed, fully embedded in all of our work and makes a measurable difference to vulnerable and excluded consumers' experiences of financial services.

Supervision of firms, rule-making and enforcement are only some of the tools we have to improve the outcomes for vulnerable and excluded consumers; we will work in partnership with firms, Government and others, encouraging innovation and influencing external debate.



Collecting better information on harm

The first step to identifying the harm caused to vulnerable and excluded consumers is ensuring we have the right information about who might be vulnerable or excluded in financial markets and what their experiences are. We will use research projects such as our Financial Lives Survey and Calls for Input to ensure we have regular and adequate information about who might be vulnerable and where harm occurs. We will use this

to prioritise future work. As part of our partnership working, we will also continue to work with consumer groups using our partnership model to collect valuable on-the-ground information on key issues affecting vulnerable and excluded consumers.

Where we do not have enough information to assess and diagnose harm to these consumers, we may seek this through consultation and calls for input, using our powers, and working with partners on the front-line.

Sharing what we know

We publish Occasional Papers on key issues to broaden understanding, stimulate interest and debate as well as offer practical help to firms. Since 2015 we have published Occasional Papers on both vulnerability and access to financial services

The Vulnerability Occasional Paper was accompanied by a Practitioners Pack. This has supported trade bodies such as the Council of Mortgage Lenders and the British Bankers Association, both now part of UK Finance, to develop or review vulnerability strategies in their sectors. Our Access to Financial Services in the UK Occasional Paper was authored by leading academics alongside FCA experts. Rather than presenting a definitive FCA view, we intended it to prompt debate by bringing together the key issues of consumer access. Since this independent Access Occasional Paper was published, we have held discussions with a number of firms on the issues raised through our routine supervisory work.



Developing remedies across organisations

We cannot protect vulnerable and excluded consumers on our own. We will work increasingly in partnership with others, particularly in areas on the perimeter of our objectives and other areas of public policy. To provide evidence and input into public policy thinking we will develop remedies in partnership with the Treasury, the Department for Business, Energy and Industrial Strategy (BEIS), the CMA and others. We will also contribute through the Consumer Protection Partnership, the regulator network, the UK Regulators Network (UKRN), consumer groups, MAS (and the new Single Financial Guidance Body), Government departments and agencies depending on the issue. We will also continue to work closely with the police and agencies to deal with criminal activities and fraud which cause harm to consumers and risks to our statutory objectives.

Firms have a vital role in ensuring vulnerable and excluded consumers are treated fairly and protected from harm. We will use our regulatory and convening powers to work closely with industry, as well as Government, trade bodies, charities and universities, to improve outcomes for vulnerable and excluded consumers. We will continue to encourage innovation to address the needs of these consumers through our RegTech events and Regulatory Sandbox programme.

Focus on the most vulnerable and least resilient groups

Low resilience can contribute to vulnerability and exacerbate harm. For example, if a consumer has a very low income, a problem that makes them £100 worse off for one month can have a very serious impact on their ability to meet their financial obligations. It may also put them into a downward spiral of debt. In the case of victims of financial scams, it may also cause a serious loss of confidence or contribute to, or exacerbate a decline in mental or physical health.

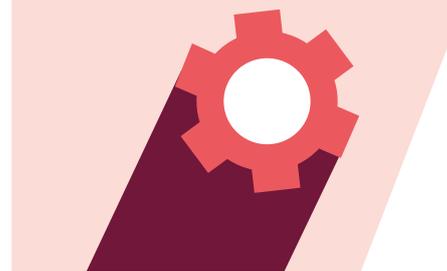
In addition, low resilience is linked to the theory of the 'scarcity mind-set'. This is that a lack of time or money actually affects the way consumers approach problems and make decisions, beyond their immediate circumstances.⁶⁵

A scarcity mind-set can cause two contradictory responses in the person affected. Initially an individual becomes more attentive and focused on addressing the scarcity. Thoughts about the scarce resource dominate the mind at all times, causing stress and reducing the available 'mental bandwidth' for other tasks or even for applying themselves properly to the task in hand. The result of a reduced 'mental bandwidth' is that people in the grip of a scarcity mind-set tend to make mistakes, become distracted or concentrate upon short-term fixes. This behaviour causes more scarcity of resources in the long term, thus perpetuating the problem.

Networked: working in partnership

Our work with the UK Regulators Network (UKRN), our Consumer Network and our consumer partners has helped us to hear the voices of more hard-to-reach consumers, including those who may be wary of engaging with institutions. Our Consumer Network also keeps us in close contact with a range of key consumer organisations including Which?, Money Saving Expert, Age UK and Citizens Advice. This helps us to identify and diagnose harm as well as to tailor remedies.

Our TechSprints - where we bring firms together to work collaboratively on shared challenges, have kick-started the development of several new products aimed at vulnerable or excluded consumers.



65 Joseph Rowntree Foundation, *Psychological perspectives on poverty*, June 2015 www.jrf.org.uk/report/psychological-perspectives-poverty



Footing the bill: fairness and flexibility for those in arrears

We continue to look at how firms are identifying potentially vulnerable customers and what flexibility they allow them when they are in difficulty. For example, we published the results of our review into firms' treatment of customers in early arrears for unsecured lending products, such as credit cards and personal loans.⁶⁶ We found that some firms failed to identify and help these customers, and gave each firm specific feedback.

We also looked at how mortgage firms calculate contractual monthly instalments (CMIs) for customers with payment shortfalls, to see whether they meet our rules and the effects on customers. We found that some firms automatically included customers' payment shortfall balances and/or arrears balances within their CMI calculations, without considering customers' circumstances and agreeing it with them. To reduce the lack of transparency and harm in a proportionate way we developed remedies with input from an industry working group and published finalised guidance for firms.⁶⁷



So we will take into account the immediate situations of consumers when we identify vulnerability. But we will also consider the ability of consumers to recover from harm and the wider impact it may have on their financial and emotional wellbeing.

Since low resilience exacerbates other potential vulnerabilities and can trap individuals in negative cycles, it is our most important area of focus. We will focus our work on sectors and products which are predominantly used by consumers with low resilience, for example, high-cost, short-term credit. In some cases, this may include exploring situations involving alternative products. We will also prioritise the most vulnerable and least resilient groups of consumers in our supervisory, enforcement and redress work to ensure they are protected from harm and receive appropriate redress when things go wrong. We will also take into account the extent and depth of the harm to vulnerable groups when we consider the amount and type of penalty to impose on firms in cases of misconduct.

Regulating for the future

'Technology is brilliant, but what people tell us is that when something has gone wrong in their life, what they miss and crave is that face-to-face human contact rather than that, 'Sorry, we can't do anything about it' call-centre mentality.'

Expert interview, consumer representative

Technological development and changing consumer needs are radically changing the way financial products and services are targeted and bought. We will ensure we understand the context of our actions and prepare for the future, while recognising that change has winners and losers.

⁶⁶ FCA, Thematic Review: Early arrears management in unsecured lending, December 2016 www.fca.org.uk/publications/thematic-reviews/early-arrears-management-unsecured-lending-tr16-10

⁶⁷ FCA, Finalised guidance: The fair treatment of mortgage customers in payment shortfall: impact of automatic capitalisations, April 2017 www.fca.org.uk/publications/finalised-guidance/fg17-4-fair-treatment-mortgage-customers-payment-shortfall



Our commitment to regulate for the future

Exploring and analysing impact in context

When attempting to mitigate any potential harm, we must explore and try to predict the impact of our proposed interventions against wider environmental change. For example, we may use information from our research projects (eg our Financial Lives Survey 2017), Market Studies (eg our Retirement Outcomes Review)⁶⁸, Calls for Input, our consultation process or Discussion Papers.

We also intend to discuss topical future developments. For example, we recently published a Discussion Paper on distributed ledger technology⁶⁹, which can enable firms to share information and reduce fraud. This paper explores the challenge to existing

business models, products and methodologies and how they might benefit consumers.

We will continue to publish our Sector Views annually⁷⁰, providing the latest information and analysis of what has been happening in the external environment. These cover four factors: the macro-economic landscape, government policy, socio-demographic trends and technology.

Our routine supervisory and enforcement work helps us to respond proactively to a changing environment. For example, we regularly take action to eliminate or reduce an ongoing risk to consumers through our 'early intervention' cases. In these, we often reach a voluntary agreement with firms without always using our formal statutory powers. We will discuss the ways our supervisory

Looking to the future: an ageing population

We published an Occasional Paper in September 2017 discussing the needs, circumstances and preferences of older consumers – particularly those who are most vulnerable and/or at risk of potential harm. We want firms to consider what this means for the ways that older consumers interact with financial services, and encourage the development of innovative products and services that meet consumer needs.

We also set out a number of ideas to support firms, trade bodies, consumer groups and policy-makers to deliver better consumer outcomes and used our convening powers to drive forward issues that sit outside our sole remit. Interventions that deliver good outcomes for older consumers are likely to benefit all consumers, supporting our wider work on the Approach to Consumers and other groups of consumers.

and enforcement work helps to protect consumers and promote competition in our forthcoming 'Approach to Enforcement' and 'Approach to Supervision' papers.

Preparing for the future

We will continue to liaise with firms and other external stakeholders to ensure that both we and the industry are as prepared as possible for any cultural shift from initiatives such as Open Banking and the Second Payment Services Directive (PSD2). Some of the consumer-focused aims of PSD2 include promoting the development and use of innovative

68 FCA, Retirement Outcomes Review: Interim Report, July 2017 www.fca.org.uk/publications/market-studies/retirement-outcomes-review

69 FCA, Discussion Paper on distributed ledger technology, April 2017 www.fca.org.uk/publications/discussion-papers/dp17-3-discussion-paper-distributed-ledger-technology

70 FCA, Sector views, 2017 <https://www.fca.org.uk/publication/corporate/sector-views-2017.pdf>



ScamSmart: protecting consumers from investment fraud

We use a variety of methods and investigative tools to prevent and shut down unauthorised business. These tools range from publishing warnings about unauthorised firms and individuals to taking down websites and pursuing criminal or civil action against companies and individuals.

We work to ensure that consumers are protected from investment fraud via our ScamSmart campaign. We also undertake technology and cyber-capability assessments for all firms considered 'high-impact', focusing where there is the most potential for harm to ensure consumers are adequately protected from issues such as data loss.



online and mobile payments, protecting consumers by making payments safer and more secure, and encouraging lower prices for payments.

The CMA Open Banking initiative allows certain companies secure access to information about customers' transactions so that they can offer services such as product recommendations and financial management tools. While we acknowledge this presents some risks, Open Banking could revolutionise the way active consumers assess their finances, helping them to better understand their spending and get more meaningful and tailored recommendations. We will support firms to explore the potential ways this could help consumers to better manage their finances.

Adapt to the new environment

We stated in our Business Plan⁷¹ that accessing products and services through mobile and other digital devices could lead to consumers paying even less attention to terms and conditions than currently. This might be because of the screen size or the speed at which consumers make decisions about online vs. offline information, leading them to buy unsuitable products. We will continue to address communication

issues, such as how firms present terms and conditions.

Big Data presents opportunities for new challengers to take on established financial organisations. Sixteen completely new banks have been authorised over the last five years, with 38 in the pipeline, many of which have been assisted by the New Bank Start-up Unit.⁷² We will continue to support firms to use increasingly sophisticated data to improve consumers' experiences.

Innovation has the potential to increase competitiveness and efficiency, improve consumer access to information, and make the best use of both consumer and firms' time. For example, innovations such as voice or finger print recognition software in login processes have the ability to significantly reduce burdens on consumers and potentially increase security.

However, innovation still presents potential for harm. More knowledge about consumers means better risk profiling by firms and less 'pooling' of risk. This could benefit lower risk consumers through price reductions. However, it could also result in 'higher risk' consumers being excluded from products because they are unwilling or unable to pay the high price they are quoted. Harm is also apparent in the increase

in operational threats to firms from fraud and cyber-attacks.

As technological and demographic changes continue, there may be elements of regulation that are no longer current or as effective as they were. This is why we continually assess, consult and adapt our rules. This is one of the main considerations for the Handbook review. Our understanding of these complex and evolving issues is expanding. We need to adapt our standards, working practices and approach to ensure regulation remains fit for purpose and provides an appropriate basis to move forward with the industry, protect consumers from harm and encourage development of well-functioning markets that deliver good outcomes for all.

71 FCA, *Business Plan 2017/18*, 2017 www.fca.org.uk/publication/business-plans/business-plan-2017-18.pdf

72 FCA, *New Bank Start-up Unit launched by the financial regulators*, January 2016 www.fca.org.uk/news/press-releases/new-bank-start-unit-launched-financial-regulators



Innovation has the potential to increase competitiveness and efficiency, improve consumer access to information, and make the best use of both consumer and firms' time.



Conclusion

As a regulator, we need to ensure our work reflects the diverse needs of UK consumers. We remain committed to delivering good outcomes for all consumers and serving the public interest through effective regulation. This means prioritising areas where we see greatest risks of potential or actual harm to consumers, acting within our statutory powers and objectives, and making sure that markets work well.

Our role requires us to strike a difficult balance between delivering an appropriate degree of consumer protection, adapting to a complex, changing environment, and providing clarity and certainty for firms. We also need to create a regulatory environment which supports positive innovation and good outcomes for all.

Addressing these complex and overlapping issues requires a nuanced approach. We are operating with finite resources and have to take sometimes difficult decisions on what we prioritise. All our stakeholders should rightly be able to support and challenge these decisions – and understand our rationale for making them.

Our Approach to Consumers explains how we currently intend to prioritise the needs of all types of retail consumers in our decision-making and interventions. By engaging and collaborating, we hope to develop a final document which provides clarity, sets clear expectations and explains how we will deliver public value.

On the next page, we are posing a number of important questions to support us in formulating our Approach to Consumers.

Our consultation will close on 5 February 2018 and we will publish our final Approach to Consumers in 2018.



Our role requires us to strike a difficult balance between delivering an appropriate degree of consumer protection, adapting to a complex, changing environment, and providing clarity and certainty for firms.





Consultation questions

FSMA requires us to take into account the eight principles of good regulation. One of these is the general principle that consumers should take responsibility for their decisions.

- 1. While having regard to the general principle that consumers should take responsibility for their decisions, do you agree that there are circumstances where consumers cannot be expected to take responsibility? What do you think these circumstances are? How could – and should – the FCA intervene in these cases?**

It is not always easy to identify which consumers are vulnerable at any point in time. But these consumers may face a higher risk of harm, and may suffer more severe harm as a result.

- 2. Do you agree that firms have a responsibility to take reasonable steps to identify the signs of vulnerability, and to have processes in place to take appropriate action where they have identified a consumer with a particular need and at a particular risk of harm?**

In a number of areas, for example financial exclusion, there are aspects that sit directly within the FCA's remit, but others that are part of a broader social policy debate and therefore in the domain of other parties, including Government.

- 3. Which consumer issues do you think sit directly within the FCA's remit, and which are more a matter for Government? Are we right to commit our resources to working with other organisations, such as firms, other regulators, Government, courts, consumer groups etc., where improved consumer outcomes may require action that is not within the FCA's regulatory toolkit?**

In this approach document we set out our vision of 'well-functioning markets that benefit everyone'

- 4. Do you agree with the aspirational vision and outcomes that we explore? Are there any further barriers or risks to us achieving it?**

We have described our approach and detailed some of the data we have used (notably our Financial Lives Survey 2017) to identify how far our vision is from consumers experiences across a range of retail products or sectors.

- 5. What further metrics would you use? Are there any specific data sources or tools that may be of benefit?**

In the final section we set out our framework explaining how we will work, including how we intend to prioritise consumer issues, select interventions and design remedies.

- 6. Do you agree with this framework? Would you like us to consider any additional or alternative factors in how we regulate:**
 - a. for all consumers**
 - b. for the most vulnerable or excluded, and**
 - c. to meet the challenges of the future?**

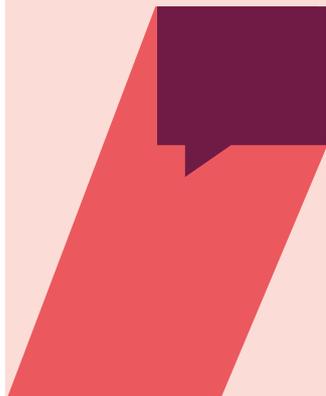
How to respond

We are asking for responses to these questions and comments on the paper by 5 February 2018.

You can send them to us using the form on our website at: www.fca.org.uk/approach-consumers-form

Or in writing to:
Consumer Insight, Financial Conduct Authority 25 The North Colonnade Canary Wharf London E14 5HS

Email:
approachtoconsumers@fca.org.uk





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