Switching the measure

Vulnerable consumers in the current account market

Kathryn Petrie

Social Market Foundation

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EXECUTIVE SUMMARY

This report assesses how the current account market is performing for vulnerable consumers. Policy measures have typically focussed on the average consumer and the headline switching rate. But these broad metrics mask a diverse range of outcomes experienced by people across the market. They also conceal the problems that persist for many vulnerable consumers who may find themselves facing high charges, difficulties engaging with the market, or total exclusion from retail banking. These consumers are least likely to switch or engage with suppliers and often have the most to gain from doing so. Yet their particular experience doesn't get enough attention, because of the excessive focus regulators and others put on broad, market-wide measurements of consumer activity.

WHAT IS VULNERABILITY IN THE CURRENT ACCOUNT MARKET?

We define a vulnerable consumer as a person who is more likely than other consumers to experience a bad outcome in the market, such as high costs and charges, inability to get a good deal, poor customer service or marginalisation in the market. Much analysis of vulnerability dwells on the nature of the vulnerable: their age, education, income, and so on. But this report argues that focussing merely on the demographic characteristics of consumers is the wrong approach. Instead, regulators, policymakers, providers and third parties would be better to focus on how consumers interact with and behave in the market. By looking less at who consumers are and more at what they do, we can better identify vulnerable consumers and intervene effectively. The report identities three groups who are particularly vulnerable and susceptible to detriment because of the way that they interact with and use the market:

- **The digitally excluded and those who operate off-line**, because they are unable to seek out the best deals and full range of suppliers. In the UK, 9% of the adult population have never used the internet, they are likely to face significant disadvantages when it comes to accessing the best deals.

- **Repeat users of overdrafts and users of unarranged overdrafts**, because they face unnecessarily high costs and charges. Around 5% of consumers are overdrawn for nine or more months a year. This can lead to serious and long term financial consequences, particularly for those with low level financial resilience.
- **The unbanked who operate in cash**, because they are excluded from a core means of transacting with services in the twenty-first century. In 2015/16, 1.52 million UK adults remained unbanked.

Policymakers should also be concerned about the severity of the effect of any market detriment on different consumers, it is the impact of this detriment that means regardless of population size these groups should be of concern. Many consumers can, in theory, experience vulnerability, but the impact of the detriment that could result from it will vary significantly, especially according to their wealth and income. For those whose financial resilience is low, the impact of a high overdraft fee is likely to be more severe. Past research has shown that a large proportion of the population have low levels of savings, especially lower-income households.

Alongside these market behaviours, the research also notes that personal circumstances – whether short- or long-lived – can indeed bring about a period of vulnerability. A period of mental illness can cause vulnerability: individuals may find it increasingly difficult to manage their finances and changes in spending could lead to problems with debt. Cancer patients and others with long-term conditions may see their incomes drop, their costs increase and their credit rating fall. Dementia patients may be unable to recall passwords and account details, be at risk of increased fraud and lose the ability to communicate their needs.

HOW THE LANDSCAPE OF VULNERABILITY IS SET TO CHANGE IN THE DECADES AHEAD

Chapter 4 shows that the current picture of vulnerability will evolve over time, driven by demographic, technological and economic changes.

- *Demographic changes* over the next 10 years will mean an even older UK population. This is likely to mean more people living with long-term

health conditions and lower levels of cognitive capability. Banks and other financial service providers will have to respond to this challenge.

- *Technological change* has been rapid over the last decade and will continue. New advances will bring opportunities to identify and assist vulnerable consumers as well as additional risks. Technological changes that allow for increased product personalisation, better money management and data sharing could impact positively on those who are vulnerable or financially excluded. However, unscrupulous firms may be able to manipulate new technology to exploit vulnerable consumers.
- One of the areas with the greatest uncertainty is *economic change*. Economic insecurity is on the rise, with the number of people on zero hour contracts or working as self-employed having increased over the last decade and set to continue.[1] The result is likely to be a larger proportion of individuals susceptible to income shocks and cash flow problems.

IDENTIFYING AND HELPING VULNERABLE CONSUMERS

In responding to these challenges, an important first step for policymakers is to establish better measures for assessing whether outcomes for vulnerable groups are improving or worsening, and thus to understand how market developments are affecting outcomes. To do this we must look beyond the headline switching rate for the whole market. The latter is helpful to understand how the market is working for the average consumer but there is, in a sense, no such thing as an *average* consumer. The headline switching rate figure often tells us little or nothing about more vulnerable consumers, not least since some vulnerable groups are inherently unlikely to switch their service.

The Current Account Switch Service (CASS) is already monitored against a wider set of metrics including consumer awareness and confidence with the services. However, policymakers should go further and be more imaginative. Based on our analysis, we identify eight key measures that would collectively give regulators, suppliers, third parties and politicians

a much better insight into the performance of the market for those most at risk.

1. **Continuity in market participation of the newly banked:** There is evidence that many of those who are unbanked have previously held current accounts but have subsequently decided to remove themselves from the sector.[2] Continuity is a signal that the newly banked are experiencing better outcomes than when they operated in cash.
2. **Utilisation of bank accounts:** Monitoring how those with basic bank accounts interact with the market is just as important as the number opening accounts. Monitoring whether consumers are opting to use direct debits and making card payments will allow us to see if these consumers have successfully moved away from cash and are obtaining the benefits of being banked.
3. **Passive and active consideration of switching:** Passive consideration means a consumer has thought about switching and active consideration means they have taken time to understand the benefits of switching. Measuring these in conjunction with headline switching rates will ensure banks are motivated to innovate and remain competitive.
4. **Take up of different products:** Here, the metric would focus on the movement from unarranged to arranged overdraft, and the variety of products on offer for the digitally excluded.
5. **Awareness of relevant charges:** Overdraft users are a large group, regulators should worry about those who are unaware of the charges. This would encourage banks to be more open in the way they communicate overdraft fees with consumers, building upon recent announcements relating to fees on unarranged overdrafts.
6. **Proportion of consumers who regularly use arranged or unarranged overdrafts:** Regular users of arranged and/or unarranged overdrafts can be subject to high fees. Monitoring the proportion who regularly go overdrawn and the average fees paid should promote banks and policy makers to think about how financial resilience can be improved for these consumers.

7. **Digital engagement:** Digital engagement goes beyond the availability of digital services, it focuses on those who do not use the internet and those who use it but do not feel comfortable using online banking. It is important that we continue to improve digital skills and confidence so that the benefits of technological change can be passed on to all consumers. Monitoring how those in rural communities interact with their finances is likely to be particularly important.
8. **Customer satisfaction:** Measuring customer satisfaction is not new, however there is merit in measuring the satisfaction of those who belong to specific vulnerable groups, such as those with long-term conditions or fatal diseases.

In addition to the new measures used to track the outcomes of vulnerable consumers, there are supplementary policy tools that could help protect consumers who remain vulnerable:

- There should be more focus on flexible money management and putting vulnerability at the heart of product design. The government should go further in its efforts to support and engage with commercial enterprises that are developing budgeting accounts. Technology can enable increased personalisation and increase the appeal of bank accounts for those who are unbanked or who have basic bank accounts.
- Providers of essential services, such as energy, water and bank accounts should be monitored against including the procedures that they have in place to help support vulnerable consumers. Firms whose policies meet with the required level of standards could receive a quality mark, thus enabling consumers to identify which providers across a variety of sectors are best suited to meet their needs. In addition, we recommend where possible a universal definition of vulnerability is created alongside a guide for supporting and communicating with vulnerable consumers to ensure equivalent standards of support are provided.
- There is a need for greater information sharing between companies and regulators. The aim should be to allow regulators and essential service providers to better identify vulnerable consumers and more

effectively support them. Effective data sharing could help ensure that vulnerable consumers receive requisite levels of support without the burden and stress associated with notifying multiple providers about changes in their circumstances. Providers of services need to ensure that their policies enable vulnerabilities to be spotted at all points of interaction, helping to shift some of the disclosure responsibility away from consumer.

CHAPTER 1: IT IS NOT JUST ABOUT SWITCHING

There are around 70 million active personal current accounts (PCAs) in the UK, 97% of adults have a PCA and 5.6 million PCAs were opened in the UK in 2015.[3] Current accounts are essential to most consumers, they allow you to manage your money, make regular payments and receive your wages. Current accounts mean that you do not have to rely on cash, allowing you to buy good easily and conveniently online and often paying with methods such as Direct Debit comes with a discount. Given the importance of current accounts in everyday life the Current Account Switch Service (CASS) exists to ensure that the process of switching account is smooth. Following the publication of the Competition and Markets Authority's (CMA) retail banking investigation a number of additional undertakings were accepted by Bacs to make CASS work better for consumers. In the past year (between July 1st 2016 and June 30th 2017) there were 909,186 switches, which is slightly lower than the previous year but is in line with historic averages.[4]

A previous SMF report, *A Switch in Time*, explored several supply side metrics, such as product innovation, bank revenues and market concentration, these measures highlighted the positive developments occurring in recent years as well as some areas where the market continues to underperform. Equally, the CMA's 2016 report found that competition is working effectively for many consumers. However, as the CMA concluded, specific groups are receiving poor value services, including certain overdraft users, whilst those who searched or switched typically had higher incomes and higher education levels.[5]

Despite these variable outcomes, our measures for understanding the performance of the market remain blunt.

The focus on headline switching rates does little in helping us gain a full picture of market outcomes, and whilst the official targets for the CASS – for instance on awareness and confidence – provide some wider context, there is an opportunity to focus on specific segments of the market. Frequent overdraft users and those with high credit balances have been identified as

two groups who are at present not getting the best deal or who would stand to gain from switching their current account. But there are a wider range of consumers who should be in focus. A new approach is required, one that looks beyond headline switching rates to establish new metrics that could be used to better identify those sub-groups of consumers who are least able to take advantage of the opportunities the market offers and who have been less visible in analyses that emphasise aggregate switching rates.

THIS RESEARCH

The aim of this research is to identify the consumers who because of their personal characteristics or behaviours are unlikely to be receiving optimal outcomes within the current account market. This could mean they are paying more than they should, the customer service they receive is poor or they are excluded for the best deals. Focusing on this group will allow regulators, policymakers and service providers to look beyond headline switching rates and focus on the outcomes of those most in need.

Questions we are looking to address include:

- How should we classify vulnerability in the current account market?
- Who is vulnerable today?
- Which trends will influence these vulnerabilities and who will be vulnerable in the future?
- Given what we know regarding the outcomes of vulnerable consumers, which measures should we monitor to track their future outcomes?

CHAPTER 2: WHAT IS VULNERABILITY IN THE CURRENT ACCOUNT MARKET?

Previous efforts to improve outcomes have focused on 'those groups who at present have the greatest concerns about switching, who are least inclined to switch, and/or would gain most from switching'. This includes overdraft users, customers with high credit balances, the young, and the financially disadvantaged. To promote engagement and awareness of CASS, campaign activity has focused on those aged 18 to 24 and low-income individuals.[7] Whilst the groups identified above would benefit the most from switching, there are alternative groups of consumers for whom the market is not working, either because of their personal characteristics, behaviours or methods of market interaction.

Existing research shows that consumers in vulnerable circumstances are less likely to use and engage with financial services: they may find that they do not have the time, ability or desire to become more proactive in relation to financial matters. This can severely affect their ability to manage money, to absorb financial shocks and to plan for the future.

It is not just the occurrence of poor outcomes that is important but the impact of the detriment when it occurs. When focusing on the current account market the compounding effect of poor outcomes can be significant: being subjected to large charges on overdrafts can impact an individual's ability to repay their overdraft and to pay other bills on time creating a cycle of usage. The outcomes of all vulnerable consumers are important but understanding the impact of vulnerability when combined with low levels of financial resilience and capability is of greatest concern and should be the key focus for policymakers. Research shows that if the average UK employee lost their income because of long-term sickness or critical illness they would be 32 days from the breadline.[8] This shows just how easy it is for somebody to become vulnerable and within such a short space of time.

DEFINING VULNERABILITY

The Financial Conduct Authority (FCA) defines a vulnerable consumer as "someone who, due to their personal circumstance, is especially susceptible to detriment."[9] Research by the FCA highlighted the scale of vulnerability in the UK. Groups at higher risk of vulnerability include those with low literacy levels, poor financial capacity skills, the young, those with low incomes and those with caring responsibilities.[10] There is likely to be significant crossover between those who are deemed vulnerable within the market and those who have been identified as unengaged or who have low levels of financial capability.

A consumer who finds themselves vulnerable in the current account market may also find themselves vulnerable in other markets, such as energy, telecoms and insurance. There is potential for more of a cross market approach to identifying and representing the interests of those who are vulnerable.

There is no universal definition of vulnerability. Regulators have developed a range of definitions, but there is one common feature within their definitions, vulnerable consumers are more susceptible to experiencing a bad outcome in the market. Drawing on the definition of the FCA as well as other regulators, this report focuses on individuals who, whether due to their behaviour or circumstances, are particularly susceptible to detriment.

TARGETING BEHAVIOURS AS WELL INDIVIDUAL CIRCUMSTANCES AND CHARACTERISTICS

It is important to remember that vulnerability is a broad term: some forms of vulnerability can be apparent for long periods, others can come and go and some can be triggered by changing circumstances or life events. It would not be wise to assume that all of those on low incomes, those over a certain age or those with the same medical condition behave the same or require the same support. How a consumer behaves and interacts with the market can impact the outcomes they receive, and focusing too heavily on personal characteristics ignores the differences in the behaviour of

consumers of similar characteristics and demographics. Last year Ofcom announced a review into landline prices after evidence suggested the price of this service was increasing for consumers whilst provider's costs were decreasing. It was stated that this review would help elderly and vulnerable consumers.[11] This is an example of when a regulator has chosen to target the behaviour or product consumed (the landline) rather than the characteristics of the consumers (age).

The following chapters explore who is vulnerable in the current account market now and in the future.

CHAPTER 3: IDENTIFYING VULNERABLE CONSUMERS IN THE CURRENT MARKET

As noted above, our starting position is that to tackle vulnerability within the current account market we should focus on the behaviours or interactions with the market rather than simply the underlying demographic characteristics of consumers. Based on analysis of existing work by regulators, industry, consumer groups, academics and third parties, we have identified three key groups of consumers who are likely to be experiencing poor outcomes in the market. These are:

- **The digitally excluded and those who operate off-line, because they are unable to seek out the best deals and full range of suppliers.** In the UK, 9% of the adult population have never used the internet[12] they are likely to face significant disadvantages when it comes to accessing the best deals.
- **Repeat users of overdrafts and users of unarranged overdrafts, because they face unnecessarily high costs and charges.** Around 5% of consumers are overdrawn for nine or more months a year.[13] This can lead to serious and long term financial consequences, particularly for those with low level financial resilience.
- **The unbanked who operate in cash, because they are excluded from a core means of transacting with services in the twenty-first century.** In 2015/16, 1.52 million UK adults remained unbanked.[14]

Within these groups, policymakers may be especially worried about some sub-groups who have low financial resilience or other additional challenges, because the impact on them – for instance of facing an unexpected charge or fee – is likely to be more severe. Whilst the population sizes may be small the need to tackle these groups remains, they are likely to be experiencing a number of poor outcomes which can have significant negative and damaging effects on their financial situation. Meanwhile, whilst focusing on market behaviours is crucial, certain demographic groups are more likely to exhibit specific behaviours. Therefore, focusing on behaviours and characteristics simultaneously may sometimes be the most effective way to improve outcomes.

THE DIGITALLY EXCLUDED AND DISENGAGED – THOSE WHO INTERACT WITH THE MARKET OFFLINE

The world is becoming increasingly digital and yet just under one in ten of UK adults have never used the internet.[15] It is not just the digitally excluded that risk receiving poor outcomes, it is important to also consider consumers who use the internet but do not take advantage of tools such as online banking, either because of a lack of skill and/or trust. By interacting with the market offline, consumers will forego the advantages associated with improvements in technology and competition. Open Banking enables consumers, both personal customers and small businesses, to securely share their data with other banks and third parties in order to compare products based on their own requirements and to manage their accounts without having to physically visit their bank.[16] Competitive advances from the Open Banking initiative and new online-only banks may not be passed onto to those who are digitally excluded or lack the skills to engage with new technology.

OUTCOMES

Those who interact with the market offline are missing out on average savings of £744 per annum[17], this figure reduces to £516 for low-income consumers. This figure relates to savings across a variety of markets and is likely to reflect the inability of offline consumers to take advantage of third party platforms, such as price comparison sites and online only deals. This is a signal that those who are less digitally able may experience decreases in their level of financial inclusion. Several banks now use paperless statements as the default,[18] it is estimated that 49% of low-income households incur a premium to receive paper bills, the average annual cost of this across all industries is £12.[19] Whilst £12 may seem nominal the compounding nature of the poverty premium and the low incomes of these individuals means this is likely to represent a sizeable chunk of their disposable income.

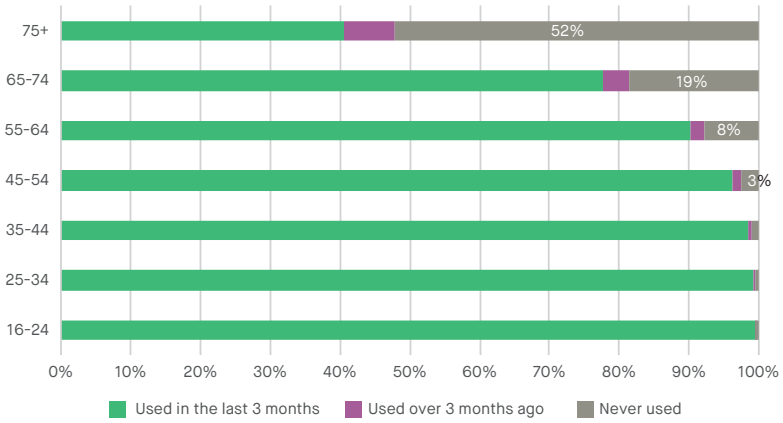
Physical and face-to-face modes of banking are declining: there have been more than 1,500 branch closures in the past three years.[20] This means monitoring and engaging with personal finances is becoming increasingly

difficult for those who are digitally excluded or have low digital skills. Branch closures are most likely to occur in rural areas where households are already faced with issues associated with broadband connectivity and speeds that make performing tasks online difficult and time consuming.[21] The Access to Banking Standard is a welcome step in minimising the initial impact of branch closures but numerous branches are still due to close and those who with low levels of financial and digital capability will be hit hardest. The trend towards digital is likely to continue and this will influence the outcomes of this group of consumers, the future of this group will be investigated in more detail later. Understanding the geography of vulnerability can help regulators and policy makers focus their efforts to certain areas of the country without needing to understand the segmentation of consumers.

WHO ARE THE DIGITALLY EXCLUDED?

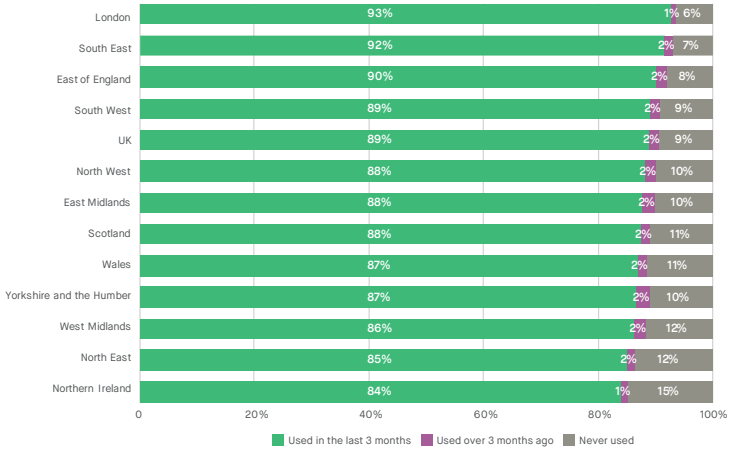
Digitally-excluded consumers tend to be older as internet usage is highly correlated with age. More than half of those over 75 have never used the internet, compared to less than 1% of those under 44.

Figure 1: Internet usage by age



Source: ONS Internet users 2017

Figure 2: Internet usage by region



Source: ONS Internet users 2017

There are several characteristics, in addition to age, that influence the likelihood that an individual operates offline. This includes disability status, ethnicity, region and economic activity status. Over half of all UK adults who have never used the internet are disabled, whilst Bangladeshi's are the ethnic group most likely to have never used the internet (11%).[22] The differences between regions is stark: in Northern Ireland 15% of individuals have never used the internet which is more than twice the rate in London at 6%.[23] This could reflect the age of the population, the degree of urbanisation and the availability of broadband services, or the perceived value of being digitally included within the area.

In 2017, 63% of adults had used the internet for online banking in the last 3 months, this is 33 percentage points higher than in 2007. Over 80% of those aged 25 to 44 have used online banking tools within the last three months, in comparison to only 30% of those over 65. Several of the digitally active are not willing to bank online. Research suggests that 3.4% of the UK's adult population have both low financial and digital skills,[24] this combination is likely to result in poor outcomes for these consumers. Consumers with low level digital skills may find themselves ignored by methods to improve digital exclusion but are just as likely to be missing out on the benefits of being online and are therefore just as important as the digitally excluded.

Summary of the digitally excluded:

- Most prominent in those aged 65+
- Regional variation – with Northern Ireland, North East and West Midlands performing the worst.
- Rural communities impacted by poor internet speeds and branch closures
- Those with low digital and financial skills are most at risk of being vulnerable

OVERDRAFT USERS

One of the groups who can benefit most from switching current accounts is overdraft users. Switching PCAs could save a consumer in Britain who goes overdrawn for more than 8 days and who does not use arranged overdrafts between £540 and £564 a year.[25] Some providers in the market are already taking proactive steps to reduce or completely remove the fees associated with unarranged overdrafts, Lloyds Banking Group recently announced that they will be removing all fees on unarranged overdrafts in November 2017.[26] This will link closely to the work the FCA is conducting on overdraft charges and its investigation into the business models used in the retail banking sector; overdrafts are often mentioned as an area where cross-subsidisation is used to maintain the free-if-in-credit model.

Outcomes

Whilst using an overdraft is the behaviour that leads to poor outcomes, not all of those who use these products are vulnerable. Concern regarding overdrafts varies depending upon whether the overdraft is arranged or unarranged. In relation to arranged overdrafts the FCA is most concerned about reliance and repetitive usage, whilst they are concerned about high and complex charges associated with unarranged overdraft usage.[27] We believe repetitive usage of unarranged overdrafts should also be considered. 5% of consumers use their overdraft at least nine months a year, these consumers are less likely than average to switch.[28] The outcomes of repetitive and dependent users are likely to be below the level of standard expected, regardless of whether the overdraft is arranged or unarranged and therefore we would define these overdraft users are vulnerable.

Research by StepChange concluded that regularly going overdrawn or going over an overdraft limit can lead to and exacerbate financial difficulties for many financially vulnerable households. Fees paid on overdrafts can represent a significant amount of money, particularly when levels of financial resilience are likely to be low. Consumers are typically unaware of the costs of their overdraft and are unlikely to see it as a form of debt. In some instances, when a consumer reaches their overdraft limit they can move towards other forms of high cost credit.[29] Financial difficulty associated with repetitive or unarranged overdraft usage can impact how these consumers interact with other markets; such as energy, they may find that they are often subjected to late payment fees or in worse cases find themselves unable to make payments.

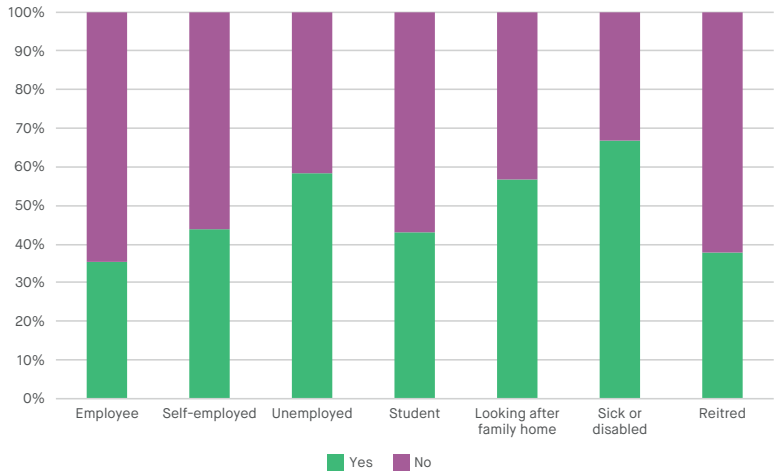
Understanding the factors that lead to consumers becoming reliant on repetitive overdrafts is important in being able to improve their outcomes. For instance, consumers who unconsciously use their overdraft because of a lack of financial awareness or engagement will need different support to those who use overdrafts despite having careful control of their finances but do not have enough money to last until the end of the month. Therefore, it is important to look deeper into this behaviour and combine it with other factors such as financial engagement and capability.

Who are the overdraft users?

As stated, 'overdraft user' is a broad category, 45% of PCA customers are overdraft users[30] and overdraft usage is not typically associated with low income, or other indicators of financial exclusion.[31] Poor outcomes experienced by those who use overdrafts may arise because of a lack of engagement or awareness with PCAs rather than underlying personal characteristics. Evidence from the Wealth and Assets Survey (2012/14) allows us to focus on overdraft users who are having difficulty paying their overdraft off. In total 41% of consumers who are currently overdrawn stated that they were having difficulty paying off their overdraft. There are many reasons why an individual could be struggling to pay off their overdraft including a high interest rate or sudden changes in their income.

When focusing on the proportion of each age group who are struggling to pay off their current overdraft there does not appear to be any significant differences between the age groups, compared to the national average. Whilst age does not appear to be related to overdraft repayment difficulties the data suggests that employment status does. Those who are sick or disabled and those who are unemployed are the most likely to struggle to pay off their current overdraft. These consumers could benefit from switching current account, particularly if the rate of interest they are paying is higher than one available at an alternative provider.

Figure 3: Proportion who are current overdrawn and struggling to pay off their overdraft by employment status



Source: Wealth and Assets Survey (2012/14)

Summary of overdraft users:

- Broad category with usage itself not a sign of vulnerability
- Repetitive users of arranged and unarranged are of most concern
- Employment status is linked to repayment difficulties
- Consumers often unaware of costs
- Can be a gateway to further high cost credit

THE UNBANKED – THOSE WHO OPERATE IN CASH RATHER THAN THROUGH FINANCIAL SERVICE INSTITUTIONS

There has been considerable effort in recent times to reduce the number of unbanked in the UK. In 2002-2003, 4.38 million adults were unbanked (did not hold a current account or basic bank account). Our analysis of the Family Resources Survey suggests that this figure has reduced significantly and in 2015/16 there were 1.52 million unbanked adults in the UK.[i] This is equivalent to 3.02% of adults, it is estimated that 0.75 million people in the UK want a bank account but currently cannot get one.[32] Whilst this may seem like a small number of people, the impact of being unbanked is significant and can have consequences in a variety of markets, therefore the outcomes of this group should be monitored regardless of population size.

There are positive policy steps being made in relation to the provision of basic bank accounts, under the Payment Account Regulations and since September 2016 nine banks are legally required to offer basic bank accounts to eligible customers. However these accounts are still not regularly advertised as banks make a loss on these accounts. Thus, consumers who would benefit from opening a bank account but are reluctant to do so may be unaware of this product.

Outcomes

The negative outcomes associated with being unbanked can occur in a variety of industries. Issues can arise when individuals move into work, often finding that they need a bank account in their name in order to receive earned income. A bank account is often a prerequisite for wanting to rent accommodation or take out a mobile phone contract.

The unbanked are of particularly concern as they are unable to access mainstream credit, the alternative options open to them will often be more expensive. In addition to detrimental outcomes associated with the financial services industry, the unbanked are likely to receive poor outcomes in a cross section of industries. Research suggests that those who are unbanked

i Based on data from the Family Resources Survey 2015/16, calculation of 'unbanked' is based on methodology provided by the University of Birmingham and consistent with that used by HMT.

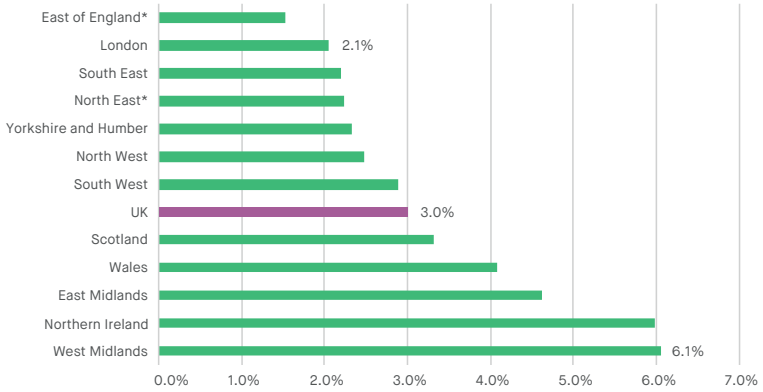
often find their access to services restricted as they cannot pay by Direct Debit.[34] Poverty premium research suggests that within the energy market low-income households who switch to the best prepayment metre tariff could still expect to pay a premium of £227 compared to the best deals available to those who pay by Direct Debit.

Who are the 'unbanked'?

Certain demographic characteristics are also associated with the likelihood of being unbanked. These include age and employment status. Over 4% of those aged over 65 are unbanked, and they are the most likely age group to be unbanked. The level of unbanked amongst those not in work is twice the rate of those who are employed, 5% of adults not in work are unbanked compared to 2% of the employed. This is likely to reflect earlier points associated with the need to become banked in order to secure employment and the proportion of those over 65 who are unbanked and not in work due to retirement.

Interestingly there appear to be significant regional differences in the proportion of adults who are unbanked within the UK. In the West Midlands 6% of the population does not have access to a basic account or current account, this is almost triple the rate within London.

Figure 4: Proportion of adults 'unbanked' by region[ii]



Source: Family Resources Survey 2015/16

ii * represents small sample size

Summary of the unbanked:

- 1.52 million remain unbanked but big reduction in the size of the unbanked over time
- Regional variation – with the West Midlands and Northern Ireland performing the worst.
- Unemployment is associated with unbanked status
- Those 65+ are the most likely age group to be unbanked

OVERLAPS AND INTERACTIONS

We have identified the three behaviours that can lead to poor outcomes and vulnerability. Certain consumers may exhibit more than one of these behaviours which causes their outcomes to be severely impacted.

We know from our research that those who are sick or disabled are one of the groups most likely to be struggling to repay their overdraft, analysis also shows that those who are disabled are less likely to be use the internet and less likely to bank online.[36] The combination of these behaviours is likely to lead to increased vulnerability amongst all consumers who exhibit both. These consumers are less likely to be able to test the market in order to see if the deal they are receiving is competitive and the lack of digital engagement may mean that they are unable to accurately monitor if and when they go overdrawn and by how much.

It may not seem obvious to discuss the interactions of being unbanked and being a repetitive overdrafts user, however, it is important to consider that whilst the interaction may not be occurring in the present this does not mean that it has not occurred. Research into the newly banked showed that over one quarter of those who became newly banked were subjected to overdraft related charges and many of those who are outside of the banking system are in financial distress as a result of consequences of being banked, such as over-limit fees on overdrafts.[37] The link between repetitive and reliant uses of overdrafts for those who become newly banked should be closely monitored to ensure these individuals do not become unbanked.

Those who are unbanked and digitally excluded may be of no greater concern than those who are unbanked. However, digital exclusion does become an issue if these individuals move into banking. In this situation ensuring that digital exclusion does not influence the continuity of market participation is important. Research by HMT shows that just one in three (36%) of the unbanked have access to the internet, for these individuals moving them into banking will cause the nature of their vulnerability to change but they remain vulnerable. Those who are newly banked and digitally excluded are likely to require more support than those who are either digitally excluded or newly banked.[38]

THE IMPACT OF LIFE EVENTS

In addition to the behaviours and interactions above there are certain consumers who are vulnerable in a variety of markets due to their characteristics. These individuals can participate in and engage with the market for long periods of time without being vulnerable, then because of a life event or change in personal circumstances they can find that the market is no longer working for them and the outcomes they receive are no longer adequate.

Changes in health

This is particularly relevant in relation to physical and mental health, because individuals can spend much of their life being healthy before being diagnosed with a physical or mental illness. Mental health issues often peak in middle age, with almost a quarter of those aged between 45 and 54 having a 'neurotic disorder'.[39] There can also be long periods of time between episodes of mental illness among those with pre-diagnosed conditions. It is possible that in a number of instances these consumers will find their capacity to make financial decisions is altered and therefore the likelihood of detriment is increased.

Research indicates that three times as many adults with mental health problems report issues regarding debt or arrears compared to those without mental health issues.[40] This is a vicious cycle: debt is not only a problem for those experiencing mental health issues but it can be the starting point for several mental health issues including depression, anxiety and

low self-esteem.[41] Research conducted by the Money and Mental Health Policy Institute highlights how periods of ill health can severely impact an individual's financial capability. They find evidence to suggest that 93% of consumers with mental health problems spend more money when unwell and 59% have taken out a loan they wouldn't have otherwise taken.[42]

At present, there are 850,000 people living with dementia in the UK.[43] Dementia can make consumers act out of character, reduce or remove their ability to make informed decisions and can make communicating more difficult. They may find that they are unable to represent their best interest in many regulated markets. There is evidence to suggest that those with learning disabilities may be at a higher risk of dementia due to premature ageing, and these consumers may find that their level of vulnerability fluctuates throughout their life. Some forms of dementia are degenerative and get worse over time and understanding how changes in the severity of the disease impacts a consumer's vulnerability is important. Some individuals will find that their ability to carry out online tasks is reduced and in some cases even their ability to read and write may decline.[44] For these consumers the ability to allow someone to access their account under power of attorney privilege can be of real importance.

Changes in physical health can also have a significant impact on the outcomes of a consumer within the financial services market. This is particularly evident when focusing on consumers who have recently been diagnosed with or are living with cancer. A cancer diagnosis can lead to a change in income, with evidence showing that 83% of those who have recently had treatment for cancer are on average £570 per month worse off;[45] this change in a person's financial situation can in turn result in exclusion from mainstream credit due to affordability constraints. Cancer patients can find that their credit record is damaged due to temporary financial difficulties, typically in the form of missed payments during periods of treatment and recovery.[46] Evidence suggests that as many as twenty percent of people with cancer use unsecured borrowing to deal with the financial impact of a diagnosis.[47] Consumers who are receiving treatment for any form of illness are unlikely to be concerning themselves with searching or switching within the market and therefore this measure would not reflect whether they are getting a good deal from their current provider.

In many cases individuals with physical or mental health issues cannot be identified by their demographics.

Low income and changes in income

Focusing on the demographic can be important when we want to understand the scale of detriment because of vulnerability. Research suggests that some low-income groups lack both the confidence to make financial decisions and struggle with digital access.[48] Such individuals can be considered particularly susceptible to detriment and therefore are defined as vulnerable in relation to the current account market. These individuals may find that they are regularly not getting the best deal, whether this means they are paying too much for credit, are unable to access savings products with high interest rates or are unknowingly using their overdraft. These outcomes are undesirable; however, they are a not a direct consequence of behaviour but the combination of behaviour and low income.

27 million working age people in the UK do not have a sufficient savings buffer in order to allow them to cope with a significant income shock. An income shock can be experienced at any point in time and can come in several forms, including job loss, bereavement, divorce or as previously mentioned ill health. This wide range of causes means that the consumers susceptible to detriment because of an income shock have a wide range of characteristics and cannot be easily grouped. Improving the financial resilience of the whole population is just one tool that will help reduce the impact of vulnerability on consumer outcomes. Income shocks can be associated with insecure work, the rise of the gig economy means that increasing numbers of individuals may find themselves subjected to an income shock and this will be explored in the following chapter of this research. Whilst income shocks can affect all individuals the impact of this can be more detrimental for those on low incomes, their ability to turn to other forms of financial services to support them during this time is likely to be limited as a result of their low income.

Summary of vulnerability

Specific consumer behaviours in the market are associated with a higher risk of a bad outcome in the current account market. These include interacting offline, repeated use of overdrafts and use of unarranged overdrafts and operating in cash (and being unbanked).

Some consumers exhibit more than one of these behaviours and are exposed to higher risks.

In addition to these behaviours we find that there are some characteristics that increase the likelihood of detriment. Changes in health can impact levels of vulnerability, long-term illness diagnoses and periods of mental illness can negatively influence outcomes being achieved. Those on low incomes or with changes in income can be susceptible to detriment, particularly when combined with low levels of household saving. Individuals can find themselves purchasing high cost credit due to a lack of available alternatives.

CHAPTER 4: THE FUTURE OF VULNERABILITY

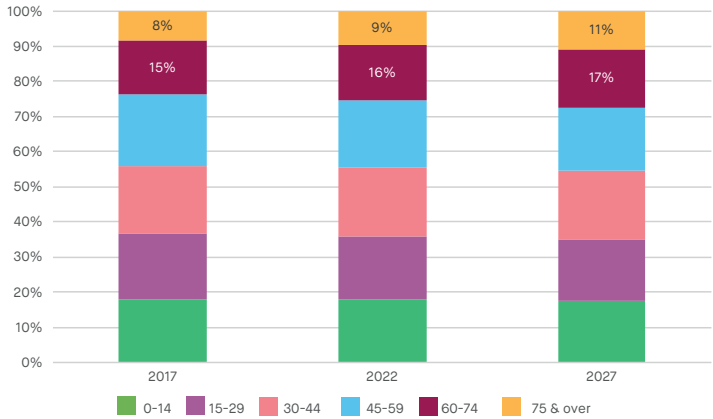
Whilst the current picture of vulnerability is important for providers of services today, there are several trends that over the next decade may impact the prevalence and nature of vulnerability. To create meaningful policy at industry or government level it is important to look beyond who is vulnerable today and focus on the vulnerability of the future. We believe there are three key changes that are likely to impact the groups of vulnerable consumers: demographic, technological and economic changes.

DEMOGRAPHIC CHANGES

An ageing population

The UK has an ageing population. Between 1975 and 2015 the proportion of the population aged over 65 increased from 14.1% to 17.8%, this is expected to rise to nearly a quarter by 2045.[49] It is not just the age group over 65 that is growing but the age group over 75 and 85. The graph below shows how the proportion of the population aged over 75 is expected to grow within the next ten years, the older old are becoming an increasing proportion of the population. As age is associated with several of the behaviours in the market that lead to poor outcomes and vulnerable situations, such as digital exclusion, an ageing population is likely to increase the number of vulnerable consumers.

Figure 5: Projected age demographic of the UK population



Source: ONS population projection (2014)

Several physical and mental illnesses are associated with age, such as dementia and increased sensory impairment and we may expect their prevalence to change as the population ages. The number of people living with dementia is expected to rise to 1.14 million by 2025.[50] There are an estimated 2.5million people living with cancer in the UK, this is expected to rise to 4 million by 2030.[51] People live nearly ten times longer after their cancer diagnoses compared to 40 years ago, however surviving cancer or being in remission does not mean that the vulnerabilities associated with the illness are no longer active. One in four of those who have been diagnosed with cancer face poor health and disability after treatment.[52] These changes are likely to have a significant impact on the way consumers interact with financial services, their ability to focus on financial matters whilst coming to terms with changes in their health is likely to be diminished. More work is needed to ensure these consumer's and their families are supported.

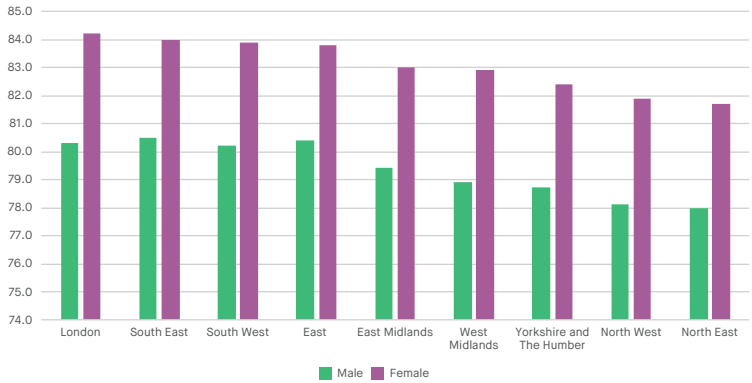
Increases in the number of people who have long term cognitive or debilitating illness will most likely cause significant increases in the volume of people who find themselves caring informally or having power of attorney rights over financial matters. Carers can often come into difficulty when dealing with financial service institutions, and find that the level of

customer service they receive is unsatisfactory. There are also financial costs associated with caring, 30% of carers have had to use their savings to make ends meet and 26% rely on credit cards.[53] This additional cost will hit households hardest where there is a lack of financial resilience, they may find themselves becoming increasingly reliant on their overdraft or turning to high cost of credit due to increased costs and reduced working hours. This is a group whose vulnerability is not associated with their own characteristics but their situation, it is likely that providers of services will find it difficult to identify them.

Regional variation

Policy changes may also influence the prevalence of vulnerability. This is particularly evident when focusing on the state pension age. The government has decided to implement the recommendation from the Cridland Review and to raise the state pension age to 68 in 2037-39. Whilst life expectancy has been consistently on the rise and the gaps between and within regions have fallen they remain substantial.

Figure 6: Regional life expectancy at birth (2012/14)



Source: ONS life expectancy at birth (2015)

However, it is not only differences in life expectancy that are important but also the variation in healthy life expectancy. Whilst the differences between male and female life expectancy is marked, there is no such difference in

the disability-free life expectancy. However, the regional differences still remain: male disability-free life expectancy at birth in the North East is 60.4 compared with 65.1 years in the South East. The disability-free life expectancy is a few years below the state pension age; even in the best performing region. Becoming unwell or disabled in the years immediately before reaching state pension age could result in an early departure from the labour market; not only is this individual now experiencing poor health but their income will be impacted due to changes in their employment status. Their level of financial resilience will be important in understanding whether the outcomes they receive in the market change, the scale of this change could cause increased levels of vulnerability. This increased vulnerability could translate into a reduction in market inclusion, whether this means they are no longer able to access the best deals due to a reduction in income or they can no longer interact with their finances in the same way due to changes in their health.

TECHNOLOGICAL CHANGES

The rate of technological change over the last century and decade has been substantial and does not appear to be declining. There are several key initiatives already in the pipeline that could impact the outcomes of vulnerable consumers, such as Open Banking, Smart Meters and the roll out of superfast broadband. Whilst many of the demographic changes mentioned are likely to worsen the current state of vulnerability, there is some hope that technology could improve the picture. Technology could reduce the scale of detriment, and in some cases, remove the likelihood of a detrimental outcome all together.

Mobile banking is now the most common way that consumers interact with their current account, consumers are increasingly using mobile banking not just for checking balances but to complete a variety of transactions.[54] Financial Technology, or fintech as it is more commonly referred to, has the potential to increase levels of engagement within the market, in 2011 the average number of banking interactions per customer per month was 2.3, and this is expected to rise to 6.3 by 2021.[55] A lack of engagement has been highlighted as one of the behaviours associated with overdraft usage (both arranged and unarranged). Increased engagement can reduce

the likelihood of going overdrawn due to increased awareness of the individual's current financial state, in the eventuality that a consumer is still reliant on an overdraft increased engagement with their current account can help raise awareness of the current charges. This would reduce the size of the population currently at risk of being vulnerable because of the way they interact with and use their overdraft.

Initiatives such as Open Banking have the potential to change the way the current account market works. However, it is thus far unclear whether the initiative will successfully provide solutions for vulnerable consumers. Consumers who have typically found themselves unable to judge the benefits of switching current accounts, such as overdraft users, may find that they are better able to accurately assess the benefits due to the use of their own historical banking data. Using technology to improve current product offerings will allow firms to differentiate themselves within the market. Whilst the number of online only banks who have entered the market in recent months is a sign of competition, most of these challengers are yet to gain scale and do not compete for the custom of vulnerable consumers specifically.

The ability to manage one's finances could be improved by technology and increased personalisation. In 2016, 434 million text alerts were sent out to bank customers,[56] these alerts help consumers keep an eye on their available balance and outgoings. Nudges and alerts may become more common as third parties can offer these banking services. This could be particularly insightful for those who are multi-banked and opt to use an aggregation platform.

Whilst the benefits from technology have the potential to improve the state of vulnerability, there are several consumers who may find that their outcomes worsen and their level of vulnerability increase. As we move to an increasingly online world, digitally-excluded consumers or those with low levels of digital capability may find it even more difficult to obtain the best deals. Whilst we have discussed the benefits of Open Banking there is potential for it to worsen the outcomes of those who are most vulnerable. Consumers who do not understand the value of their data may fail to realise how their data is being used or in some cases shared.

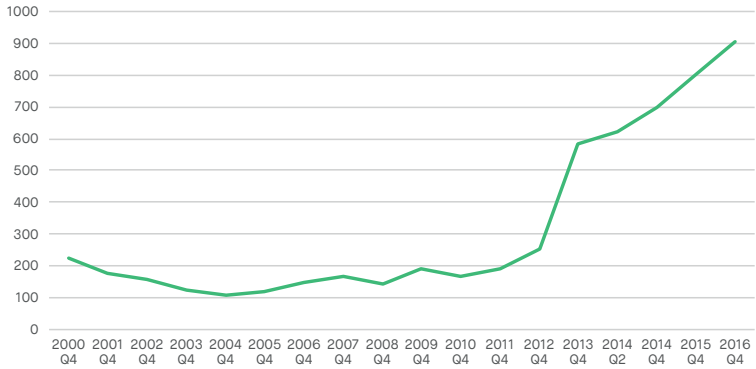
This report has already discussed how those in rural areas and those who are digitally excluded are impacted by the closure of bank branches. In this context, increased digitalisation within the current account market will lead to further branch closures. Bank branches can use technology to their advantage: in 2016 536 branches were fitted with video banking facilities, representing a 23% increase on 2015.[57] Such initiatives should help ensure consumers do not end up financially excluded as a result of rural branch closures, although it would require them to be digitally savvy. As technology continues to evolve we may see multiple banks sharing one physical branch, this will reduce the cost of operating a branch for each individual bank but ensure that consumer access remains.

ECONOMIC CHANGES

When focusing on the long-term future of the UK economy there are a range of possibilities, from the rise of artificial intelligence to the introduction of a universal basic income. However, when focusing on the next 10 years, possible changes are more limited but the impact remains important. The level of uncertainty associated with the UK economy because of Brexit means it is difficult to forecast the future state of the economy with any certainty.

However, we do know that in recent years, there has been a rise in economic insecurity. Evidence shows a rise in the number of workers reporting being on zero-hour contracts, this is likely to reflect an increase in awareness of these contracts as well as an increase in the number of workers on zero-hour contracts. Zero-hour contracts are associated with a lack of income security and we have highlighted how income shocks can affect a wide range of consumers. Not all of those on zero-hours contracts are vulnerable, however they are at increased risk of an income shock. If this shock is combined with low levels of savings or financial resilience then these individuals may find themselves increasingly susceptible to detriment and therefore vulnerable. Given the low levels of financial resilience in the UK, if the trend in zero-hour contracts continues to rise there is potential for this to increase the number of consumers who may find themselves suffering across markets because of income shocks.

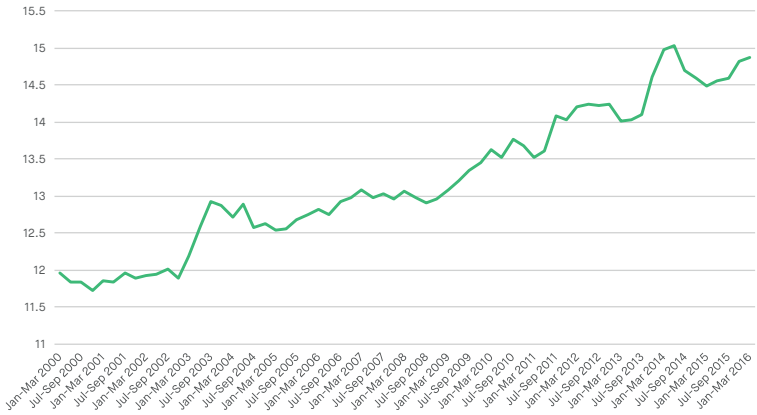
Figure 7: Number (thousands) of people in employment reporting that they are on a zero-hour contracts



Source: ONS, 2017

Alongside a rise in zero-hour contracts the UK labour market has seen an increase in the proportion of workers who define themselves as self-employed. Both points are symbolic of the wider issue of growing income insecurity.

Figure 8: Share of self-employed workers in total employment



Source: ONS, Labour Force Survey, 2016

As with zero-hour contracts self-employment alone does not cause vulnerability but there are circumstances when those who are self-employed may find themselves more susceptible to detriment. The self-employed are likely to have little to no income protection during a period of illness, this could mean that they turn to forms of credit to support themselves, depending upon the severity of illness this could be a considerable amount of time to be without an income. The rise in irregular or insecure work is occurring at the same time as rising household debt levels which is likely to worsen the impact of detriment occurring because of income shocks.

One of the biggest barriers to addressing the outcomes of vulnerable consumers is that the commercial motivation is not there for the banks. At present, there is no clear competitive advantage associated with being a bank that supports those in the most vulnerable circumstances as it is often these consumers who are the least likely to switch their account provider. There is potential that a combination of economic and technological changes will further reduce the motivation of the banks to target and support vulnerable consumers. As technology evolves and competition within the market increases many of the main high street banks will find themselves competing to keep their customers, particularly those who are the most engaged, if this leads to a reduction in the banks client base they may find that their revenue is negatively impacted. This combined with historically low interest rates may further reduce the capacity of banks to target their efforts on improving the outcomes of those who find themselves in vulnerable situations or on the edges of financial inclusion.

CHAPTER 5: WHAT MEASURES SHOULD WE TRACK?

The last chapter identified who is vulnerable and how vulnerability may change in the years ahead. This chapter focuses on how policymakers can respond.

Historically, regulators have focussed on overall switching rates to measure whether markets are working for consumers. In addition, to measuring the headline switching rate in the current account market, following agreement with HM Treasury, CASS also measures and reports performance against two other metrics, customer awareness and customer confidence, with targets set at 75%.[58] Whilst awareness has been at or above target in the first half of 2017, there is still work to be done on customer confidence which remains below target.[59] These are constructive measures but they are likely to mask the outcomes being experienced by subgroups of consumers, particularly those who are less likely to be financially included and those in vulnerable circumstances. To ensure the market works for everyone, we believe policymakers, regulators and organisations should focus on alternative measurements of success.

The number of unbanked has reduced overtime however continuity remains problematic. Research in 2010 showed that two-thirds of those who were unbanked had previously been banked. We also know that many of those who were encouraged to open a bank account subsequently left banking, either because of their account being closed by the bank due to account delinquency or choosing to close their bank due to penalty charges.[60] Measuring ***continuity in market participation*** of those who have previously been unbanked or have characteristics that mean they may become unbanked in the future will allow for a more in-depth measure of the newly banked/unbanked. Continuity in participation could be measured by focusing on the proportion of newly banked consumers who leave the market, either through having their account closed for them or choosing to close their account. By focusing on continuity, it will allow policymakers and providers of banking services to look beyond the number of unbanked and how consumers fare once they have become banked, paying particular

attention to levels of digital engagement and overdraft usage as we have shown that the newly bank often exhibit additional behaviours associated with vulnerability.

Past evidence suggests that those newly banked tend to still operate largely in cash and therefore it is important that we measure the ***utilisation of bank accounts*** amongst those with basic bank accounts and those who have become newly banked. Providers and regulators should focus on how consumers with basic bank accounts interact with the market, which product features they are using and whether there are signs that they remain operating largely in cash. The benefits associated with becoming banked will only be realised if consumers fully utilities all the benefits of having a bank account. Understanding why those who have basic bank accounts still opt to operate in cash will be key in addressing issues associated with bank account utilisation.

We have shown that the headline switching rate is likely to mask some of the steps consumers are making to test the market. Measuring metrics such as ***passive and active consideration of switching*** alongside switching rates will allow for a more complete picture. Passive consideration means a consumer has thought about switching but has not taken the thought process any further, whereas active consideration monitors the consumers who have actively compared prices or products in the market. As this measure is still related in part to switching it will put pressure on providers to innovate and remain competitive. Passive consideration would most likely to be measured through consumer surveys whereas active consideration could be based on observed data provided by third party comparison sites or google trends data.

Those with the most to gain from switching in the current account market are overdraft users and those with high balances. We found that overdraft users aged 25 to 34 often have difficulties paying off their overdraft. Therefore, focusing on whether overdraft users within this age group are actively considering switching could help improve the outcomes of some of the most vulnerable. Incorporating the consideration of switching into the official measure of demand side competition has implications for alternative markets, such as energy, telecoms and insurance markets. If a consumer

has searched for an alternative provider but has ultimately decided that they would prefer to stay with their current provider, we can use this as a proxy for the outcomes of this consumer. We can assume that their outcomes at present are satisfactory. It is possible that the consumer opted to remain with their current provider due to perceived barriers associated with switching process, therefore the current measures of consumer confidence and awareness should remain.

Consumers who remain with their provider, particularly those who do not test the market, may find that they are not getting the best deal. We therefore suggest that regulators watch the ***take up of different products***. An example of this within the current account market could be the movement from unarranged to arranged overdrafts. Another group whose outcomes may more accurately be captured by this type of measure are the digitally excluded. These consumers are less likely to be financially included; they are extremely unlikely to use comparison websites and may find that they cannot access the best deal as these can be available online only. Measuring product take up amongst the digitally excluded or those with low digital skills is important. Providers should be able to identify those who are not digitally capable, signs to look out for would include those who have not registered for an online account or those who opt for paper billing. Again, this measure has implications for a wide range of markets where digital exclusion can severely impact your ability to achieve optimal outcome. This is particularly evident in relation to energy and insurance products.

Consumer inertia can have negative consequences for a variety reasons, such as a lack of product knowledge and an absence of competitive pressure being put on the providers. Therefore, we recommend that the ***awareness of relevant charges (such as overdraft fees and interest rates)*** is measured. This measure would capture both groups of consumers who have the most to gain through switching. The way that information is presented to individuals is particularly important as it has the power to overwhelm and further disengage those who struggle to understand financial matters. The FCA's work on smarter communication has highlighted the good practice that some financial services firms are providing in order to communicate effectively with their customers. Virgin Money has created a series of short

films which provide a guide to core financial products and Nationwide partnered with Channel Flip and some of YouTube's well known faces in order to create a YouTube channel for 13 to 17 year olds in order to engaged them with complicated financial facts.[61] Measuring awareness of charges at provider level should encourage providers to be more innovative in the way they communicate with their customers, particularly those who due to characteristics or circumstance may have difficulty processing information. The way firms choose to communicate is particularly important when charges are changing, financial service providers should be encouraged to alert consumers to alternative options in order to promote competition.

Persistent unarranged overdraft users are one of the key groups identified as particularly susceptible to poor outcomes, due to high and complex charging structures. We believe an annual report should be produced that details the proliferation of unarranged overdrafts. By reporting the ***proportion of consumers who regularly use unarranged overdrafts*** banks should be pressured into reducing the number of consumers who are persistent users. Defining 'regular' or 'persistent user' would be a task for the regulator. This measure could go a step further and ask for providers to state the average charge occurred by these products, this would sit alongside any recommendations from the FCA's strategic review into retail banking.

Alongside efforts to measure the outcomes of those who are digitally excluded or who have low levels of digital capability, we should monitor ***digital engagement***. In this report, we have explored the number of benefits that could be realised as a result of technology advances within the financial services market. However, these will only improve outcomes for consumers who are digitally engaged. Digital engagement goes beyond digital availability, it is not just focused on those who do not use or those whom lack access to the internet, but focuses on those who do not have the skills to engage with banking online or do not trust online banking due to data protection issue. It is essential that we continue to improve and monitor the level of digital skill and confidence amongst consumers in order for the benefits to be passed on to all consumers. Rural communities still face issues regarding their internet connectivity and are being most impacted

by branch closures, monitoring the digital engagement of this subgroup is essential in order to ensure that their outcomes are not reduced as a result of increased technology and a removal of branches.

Overall satisfaction in the current account market remains high, with the CMA report showing that 90% of consumers were satisfied or very satisfied with their PCA provider.[62] One of the CMA remedies requires the bank to publish service quality measures, however, there are subgroups of consumers who may find their experience differs from the population. We recommend that ***specific groups have their customer satisfaction measured***. These groups may include those with caring responsibilities, those with low levels skills and the digitally excluded. These consumers may find that they interact with their bank more often than other groups of consumers and therefore are more likely to be impacted by negative customer service practices. Regulators, including Ofgem and Ofcom produce customer satisfaction metrics in order to enable consumers to compare the performance of market providers. The use of numerous metrics means that regulators and consumer receive a detailed picture on how their provider handles customer queries.

We have shown that life events, such as a change in health or income can have an impact on the consumer's level of vulnerability. It is important to measure the satisfaction of these consumers in addition to the subgroups above. Unless a consumer declares these changes, there could be problems in identify these groups and therefore it could be best to monitor satisfaction based on the nature of complaint.

Measure	Groups to focus on
Continuity in market participation	• Those who have previously been unbanked • Those at risk of becoming unbanked in the future
Utilisation of bank accounts	• Those who have previously been unbanked • Those who use basic bank accounts • Regional cross-sections
Proportion of consumers who regularly use unarranged overdrafts	• Overdraft users; focusing on those who are unarranged
Passive and active consideration of switching	• All consumers • The young • Overdraft users aged 45 to 54
Take up of different products	• Those who interact primarily through face to face channels • Overdraft users; focusing on the movement from unarranged to arranged
Awareness of relevant charges	• All consumers • Overdraft users • Those with high balances
Digital engagement	• Those aged 65+ • Regional cross-sections
Segmented customer satisfaction	• Those with caring responsibilities • Those with low incomes/low level skills • Those who interact primarily through face to face channels • Those experiencing changes in health

CHAPTER 6: PROTOCOLS AND PRACTICES FOR INTERACTING WITH VULNERABLE CONSUMERS

In addition to the new measures used to track the outcomes of vulnerable consumers there are supplementary policy tools that could help protect consumers who remain vulnerable or inert. Below we suggest some areas where regulators, payments system operators and financial service providers could develop further thinking in the future.

PRODUCT DESIGN AND NOTIFICATION

Increased money management flexibility

The FCA are investigating nudges and prompts in response to the remedies from the CMA and numerous providers are already using these tools to better inform consumers, this includes information such as their available balance or alerting them to the fact they are due to go into an unarranged overdraft. While these alerts have helped consumers, those that are highly unengaged are unlikely to benefit. Being alerted that your account is due to go overdrawn is only beneficial if you have the capacity to transfer funds from an alternative source or if you can cut back your spending without harming your living standards.

Future technological advances may offer potential for nudges and triggers to become increasingly personalised and ensure that the benefits are passed onto a wider set of consumers. One example of this is Request to Pay, which has the potential to change the way unengaged and vulnerable consumers interact with the market and their personal finances. We know that those on low incomes are less likely to use Direct Debits as some prefer control over when payments leave their account. Request to Pay will allow organisations to send payment requests to consumers, and the payment is not taken until the individual confirms the request. Tools that allow individuals to have more control over their finances have the potential to increase the appeal of bank accounts for those who are currently unbanked and have the desire for control. These could complement current payment systems such as Direct

Debit, which is favoured amongst mental health charities as it outsources control and reduces the likelihood that bills will go unpaid during periods of ill-health.

There is scope for providers to improve the appeal and design of their accounts for those on low incomes or those who want to manage their money in different ways. Allowing users to separate their money into different 'pots' for budgeting purposes has several benefits. The Department for Work and Pensions (DWP) explored options associated with developing budgeting accounts to work alongside Universal Credit but decided that this was not feasible within the short timeframe.[63] The Government should ensure that it supports banks and fintech firms in order to make budgeting accounts more widely accessible, these products should not be designed specifically for those on low incomes but work for all consumers who would benefit from increased control.

Product safeguards

Vulnerability can be periodic for some consumers, and for some changeable between days and weeks. Changes in a consumer's mental health can cause their spending behaviour to differ. In these circumstances, there should be tools available to consumers to help them better manage periods of ill-health. This could include services such as being alerted to changes in their spending behaviour or product safeguards that stop this behaviour from occurring, such as double-validation on large purchases. Double validation could occur on online purchases by delaying the payment transaction until the consumer has confirmed the purchase a number of hours later or by setting up a delegate, such as a carer, who has to confirm purchases before the transaction is approved.

In some instances, third party tools exist that allow consumers to do a few of these activities, but this requires a high level of engagement and willingness to share data with a company which the person may be unfamiliar. More could be done by providers, charities and behavioural specialists to understand how products could be adapted to better protect the needs of consumers without the need for third-party engagement.

CROSS-SECTOR TOOLS

Universal guides and definitions

Whilst many policies mentioned above relate specifically to the current account market there are opportunities for more cross market interventions. The definition of vulnerability varies between the regulators as does the guidance issued by regulators to companies in their industries; such as the FCA's occasional paper 8 practitioners pack and Ofgem's vulnerability strategy. While it is understandable that vulnerability will be manifested in different ways in different markets, there are also likely to be common features. We recommend that a universal definition of vulnerability is developed in conjunction with a cross market guide for supporting and communicating with vulnerable consumers.

Guides are often suggested best practise and not enforced, which is why in addition to the measure above, we recommend companies could be monitored against the existence, and the standard, of procedures that they have in place to help support vulnerable consumers.

Firms whose policies meet with the required level of standards could receive a quality mark, thus enabling consumers to identify which providers across a variety of sectors are best suited to meet their needs. Making such information public would also apply social pressure to firms to improve their protocols for working with vulnerable groups. Scoring criteria could relate to the full spectrum of vulnerabilities, or specific awards could be allocated, such as a dementia quality mark. The benefit of having an award that is comparable across sectors is that consumers will become more aware of the marks and have a greater understanding of the implications for their customer experience. This would sit alongside side the recommendation to monitor the customer satisfaction levels of consumers in vulnerable situations. Together these could better protect the outcomes of all consumers but particularly those who are susceptible to detriment or who have low levels of financial resilience.

Stronger collaboration and data sharing

Companies are beginning to signpost their customers to support services across a variety of sectors, but there is a need for greater information sharing between companies and regulators across markets. Ofwat and Ofgem, through the UK Regulators Network, are exploring the potential benefits and challenges associated with data sharing across the water and energy markets. The aim is to enable better identification of vulnerable consumers to more effectively support them. This could include firms being aware that vulnerable consumers often need more time to discuss their issues, adjusting communications to reflect the ability of the individual and alerting consumers to the fact that they can suggest a family member or friend to help them manage their account. This work could and should go further. Companies in some markets may be better placed than others to identify the vulnerabilities. Banks are likely to have better information on changes in income whilst insurance firms are best placed to identify changes in the individual's health. Effective data sharing between these organisations could help ensure that vulnerable consumers receive the necessary levels of support without the burden and stress associated with notifying multiple providers about changes in their circumstances.

Collaboration should not be limited to the providers of the end use service. There is a need for all parties involved in financial transactions to be included, including payment system operators. Payment system operators can and should identify the payment needs of consumers, particularly those in vulnerable circumstance. Collaboration between payment operators, such as the New Payments System Operator (NSPO), and essential utility providers should be supported to ensure that payment solutions can be created that meet the needs of vulnerable consumers and commercial entities.

The sharing of data should be compliant with the rules of the Data Protection Act. Firms are often risk averse in relation to sharing data however if the consumer consents before their information is shared and are made aware of how and why their data is being shared then compliance is likely to be achieved. Enabling consumers to better understand the value of their data should help reduce the risk of consumers being made vulnerable because of sharing.

EMERGING VULNERABILITIES

There is an increasing need for providers and products to adapt to the changing nature of vulnerability. Whilst we have already recommended data sharing, there is a need for firms to be more proactive in identifying these vulnerabilities. Consumers should be actively encouraged to come forward in alerting providers to life changes, such as a health diagnosis or a negative income shocks. Informing the consumers information on the importance and benefits of full disclosure. Firms in all markets should ensure their staff are properly trained to detect changes in vulnerable at all points of contact, helping to shift the responsibility away from the consumer. Efforts to normalise vulnerabilities within society, such as the stigma associated with mental health and low level literacy, should ensure consumers feel more comfortable openly discussing their issues.

There are positive examples in the market that could be built on here. Partly prompted by the FCA, several suppliers are now working with cancer charities such as Macmillan to actively encourage customers with cancer to engage in a dialogue about their current and future needs as consumers. We believe this approach could be adopted more broadly and applied to other conditions and circumstances that might render a customer vulnerable. Providers' success in creating such norms of behaviour – and incorporating awareness of such vulnerabilities into their working practices and business models – could be a more useful measure of the industry's performance than an aggregate switching level.

As we know from the work on vulnerability trends, the number of people living with dementia and cancer is likely to increase and therefore so will the number of individuals with caring or power of attorney responsibilities. In many cases, there are procedures that account holders must go through to allow third party access to a family member or friends. These procedures will not help consumers who have already lost the capacity to understand and complete these processes, this is particularly relevant in the case of dementia or physical illness. Regulators and firms across a variety of industries should look at how they can improve the ability for vulnerable consumers to receive assistance with managing their accounts when it is needed.

The proportion of adults aged over 75 and 85 is increasing, as time goes on they will become an even larger segment of the consumer population. Old age has come across as a characteristic that means an individual is likely to be at risk of experiencing several negative outcomes. We recommend the introduction of an elderly consumer charter. This charter would ensure that firms have the policies and procedures in place to protect the outcomes of all elderly consumers now and in the future.

Technology has the ability to lead to increased competition and better outcomes for consumers but these improvements will only be realised if consumers are knowledgeable enough to make use of the new tools at their disposal. More work should be done to improve the financial and digital skill of the UK population. Focusing on a consumer's confidence in their own ability to manage their money, both on and offline.

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Switching the measure

Vulnerable consumers in the current account market

How do we know when a market is working well? In several sectors, regulators and politicians use the number of customers who switch as a barometer for how well the market is working. However, we can end up spending too much time looking at the wrong targets and measures, ignoring other fundamental issues in the market. Focussing too heavily on switching rates can distort reality, as the figures too often reflect the behaviours of engaged consumers and do not actually improve our understanding of the wider picture

Switching the Measure explores the experiences of the most vulnerable consumers within the current account market, considering who these groups are today and who they might be in the future. The report puts forward new measures that will allow policymakers to better identify and track just how the market is working for the vulnerable: the people who need to benefit the most.

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