

Notes for Financial Inclusion Commission

Making financial and related markets work for consumers in vulnerable situations

Background

Today, we have markets for utilities and essential goods and services. Markets may differ but the common aim is for consumers to benefit from competition and lower prices.

But a series of reports from Consumer Futures, Citizens Advice and Citizens Advice Scotland¹, have shown how markets for essential goods and services are failing people on low incomes and in vulnerable situations.² People in vulnerable situations may not be able to access essential goods and services and when they do, they often end up paying more. *Addressing the Poverty Premium* commissioned by Consumer Futures (now part of Citizens Advice) from the Joseph Rowntree Foundation (JRF) found that prices for utilities and credit can raise the cost of a minimum household budget by around 10 per cent.

But market failure is sometimes interpreted as consumer failure – consumers not engaging with the market. But making markets work is not simply down to consumer action – the actions of regulators and the behaviour of companies can have an impact on how accessible or affordable financial and other essential goods and services are to consumers – particularly those in vulnerable positions and on low incomes.

There is a clear case for governments to develop a consumer strategy that has at its heart a recognition that market failure - often and clearly identified by Consumer Futures and Citizens Advice - can't just be left to consumers. Action by companies, regulators and governments can similarly make markets work or fail. A consumer strategy also needs to recognise that behaviour of companies providing – or not providing - services in the financial sectors also links to other essentials of everyday life – ie direct debit provides access to the least expensive energy deals. Affordable loans could prevent debt or consumer detriment in essential goods and services like energy.

¹ Consumer Futures merged with Citizens Advice in April 2014.

² *Access for All* (March 2011) by Citizens Advice,

http://www.citizensadvice.org.uk/index/policy/policy_publications/access_for_all.htm

Tackling Consumer vulnerability an action plan for empowerment written by Jonathan Stearn and published in December 2012. by Consumer Futures in collaboration with Citizens Advice and Citizens Advice Scotland, [Tackling consumer vulnerability – an action plan for empowerment](#) defined a consumer in a vulnerable situation as someone: 'who cannot choose or access essential products and services which are suitable for their needs, or cannot do so without disproportionate effort/cost/time.' *Addressing the poverty premium*, (June 2013) commissioned by Consumer Futures from the Joseph Rowntree Foundation (JRF) [Addressing the poverty premium](#)

Beyond consumer action

No matter how consumer action is enabled and encouraged, changing consumer behaviour and driving the development of 'active consumers' can't, by itself, challenge market failure.

The poverty premium provides a powerful example.

Those on a low income may be excluded from the best deals no matter how active they are or would like to be. Having no access to the internet or insufficient funds in bank accounts to pay by direct debit or a bank willing to provide an affordable loan are market failures that can't be addressed by consumers alone.

Addressing the poverty premium points out that credit and other limited payment options can 'bring substantial costs to those on low incomes, either because they face additional transaction charges or because they pay large amounts for credit.'³

The report, commissioned from the Joseph Rowntree Foundation (JRF) and calculations by the report's author Donald Hirsch, show that paying higher prices for utilities and credit can raise the cost of a minimum household budget by 10p in every £1.

Addressing the poverty premium, sums up the problem. It points out that: 'a market where prices are only competitive for a minority of buyers cannot be said to be working well.'

Companies, regulators and government – understanding consumer vulnerability

Making sure that people on the lowest incomes and others in vulnerable situations can get access to affordable essential goods and services should be a priority of companies, regulators and government.

For some years, Consumer Futures and Citizens Advice have been pointing out that any consumer may find themselves in a vulnerable position at any time in their lives. And vulnerability may not just be linked to personal circumstances but can be caused by the behaviour of companies.

Research, soon to be published, for Citizens Advice from the University of Leicester shows that the regulators of energy, water and communications, together with the financial services regulator FCA, are moving towards the more rounded understanding of consumer vulnerability outlined by Citizens Advice.

³ Ref needed. Donald Hirsch details caused by:

- Paying higher than average utility tariffs either because of the payment method (such as quarterly billing or prepayment) or because of being on a 'sub-optimal' deal.
- Paying more per unit of consumption because of being a low user.
- Having limited choices of how to buy things.
- Paying high interest on consumer credit.

And there has been a shift in their understanding of what causes consumer vulnerability.

Consumer Future's work at a European level has also started to help develop an understanding of vulnerability.

European Commission's Directorate-General Health and Consumers (DG Sanco) decided to look more closely at consumer vulnerability. It asked VVA Europe together with London Economics and IPSOS to carry out a study on consumer vulnerability. The objective of the study is to identify marketing practices that are especially problematic for consumers and to identify good practice measures employed in Member States to mitigate consumer vulnerability.⁴

Challenging traditional perceptions of consumer vulnerability could fundamentally change the way companies engage with consumers.

The current desire of banks to move to digital statements provides a useful example.

According to regulator FCA, banks are aiming to require customers to 'opt-in' to receive paper statements. Banks primarily want to provide statements online.

A traditional response from a regulator may be to look for groups of 'vulnerable consumers' who may face detriment – such as older people, those experiencing a mental or physical health issue, those affected by sight loss etc. It might even look at geographical availability of online services and groups unlikely to have internet access or digital skills.

Recognising that vulnerability is multi dimensional and can be caused by the behaviour of companies might lead to a different approach. It would recognise that the removal of paper statements could cause detriment to all consumers at particular times. For example, people may lose access to historical statements of expenditure if they were reliant on digital information. Banks may remove information when an account is closed. When an account holder died it may be very difficult for an executor to access the account if it only exists online. And there are other issues – local authorities and other public bodies often ask for a bank statement as proof of residence – particularly when the applicant is not the tenant or owner of a property.

All these issues could create consumer detriment and vulnerability.

In this case, the solution could be for the banks (and this could apply to other suppliers of essential services) to not impose 'digital by default' but offer an 'opt in' to digital statements so that consumers are clearly making a conscious choice to receive statements online. Those opting for digital statements would need guarantees from banks on access to archived information, access to information for executors etc and would also need to be offered solutions when a bank statement is needed as proof of residence.

⁴ Twitter from VVA

Understanding consumer vulnerability as a dynamic state that does not just link to people's current circumstances should make companies aware of the consequences of their actions and create a sea change in the way regulators and governments view vulnerability and consumer detriment.

Financial services and other companies

Although essential goods and services are needed by everyone, they are not equally accessible and affordable to everyone – that is one of the reasons why the poverty premium is still as detrimental today as it was when first recognised by American sociologist and consumer advocate David Caplovitz nearly 50 years ago.

The challenge is how to get the companies to look beyond 'middle income' consumers and recognise the need to provide services that are inclusive i.e. that include and are accessible to everyone who needs them. To flip the definition of consumer vulnerability developed by Consumer Futures: 'Create a situation where people can choose and access essential products and services which are suitable for their needs, and can do so without disproportionate effort/cost/time.'⁵

A more hands on and interventionist approach from regulators (and government) may be needed to encourage companies to adopt a more inclusive approach.

It may also be in the interests of companies to become inclusive in their provision of essential goods and services – they should not assume they can't make a profit. Over a decade ago the late Coimbatore Krishnarao Prahalad talked of the fortune of the bottom of the pyramid and eradicating poverty through profits⁶. And the mix of economy, environment, culture and social justice have been at the core of discussions around sustainable development.⁷

Numerous companies may provide some financial support for charities or, for example, encourage staff to volunteer. But there are few examples of companies that appear to go beyond this 'first level' of engagement and work an understanding of consumers in vulnerable positions into the company's thinking – into the company's DNA.

Consumer Futures report (in conjunction with Citizens Advice and Citizens Advice Scotland) *Tackling consumer vulnerability an action plan* suggests the 'Majority of organisations don't set out to discriminate against or exploit consumers in vulnerable situations. They simply don't consider or know the most appropriate way to anticipate and meet their needs.'⁸

⁵ See *Tackling consumer vulnerability and action plan for empowerment*.
<http://www.consumerfutures.org.uk/reports/tackling-consumer-vulnerability-an-action-plan-for-empowerment/>
<http://www.consumerfutures.org.uk/files/2013/05/Tackling-consumer-vulnerability.pdf>

⁶ *The Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits*, Revised and Updated 5th Anniversary Edition – September 3, 2009

⁷ See Adams, W.M. (2006). "[The Future of Sustainability: Re-thinking Environment and Development in the Twenty-first Century.](#)" Report of the IUCN Renowned Thinkers Meeting, 29–31 January 2006. Retrieved on: 2009-02-16

⁸ <http://www.consumerfocus.org.uk/files/2012/12/Tackling-consumer-vulnerability.pdf> p36

The boards, chief executives and stakeholders of companies providing essential goods and services should be asking themselves a simple question. ‘Which customers are benefiting from the way we are pricing our goods and providing services and who is losing out?’ Then find solutions to all those who are losing out so all customers can be treated inclusively and fairly.

So, for example when banks introduced cash machines (ATMs) they did not ask: ‘*Who would not be able to use the ATMs?*’ If they had, they would immediately have realised that people affected by sight loss could not use the machines without risk. It has taken a campaign by RNIB to highlight the problem and find the solution of talking ATMs⁹

Engagement between different sectors can help tackle consumer vulnerability. When companies encourage people to use direct debit to pay for utilities, those on low incomes may be deterred because they face heavy penalties from banks if they become overdrawn. In a roundtable organised by Consumer Futures, people on low incomes suggested that banks could send text messages when funds were low with a warning what direct debits were likely to be due along with a contact number for the utility company. Providing this information could allow the consumer to talk directly to the company and agree arrangements that would prevent them becoming overdrawn if they had problems paying, give them confidence to use direct debit, get cheaper deals and respect their bank and energy supplier.

Just two examples of how financial institutions and other companies need innovate if they are to be inclusive and fair. It also illustrates how financial services need to link with other companies providing essential services if we are to tackle issues like the poverty premium.

Setting a minimum standard

In an attempt to encourage companies to be more inclusive, Consumer Futures, Citizens Advice and other organisations worked with BSI to produce British Standard 18477 – *Inclusive service provision- requirements for identifying and responding to consumer vulnerability*.

The standard was published in November 2010. While an increasing number of companies are beginning to consult elements of the standard to inform how they review and revise their customer processes, so far, only one organisation – The Financial Ombudsman - has publicly stated that it has used the standard to benchmark the way it provides all its services to consumers and has implemented changes to its business as a result.

⁹ <http://www.rnib.org.uk/campaigning-latest-campaigns/talking-atms>

Adopting inclusive behaviours invariably requires a root and branch change in the way companies see and engage with consumers – all consumers. So Consumer Futures and Citizens Advice has been seeking to build momentum around the standard. But we also need regulators and government to encourage inclusive behaviour. Energy regulator Ofgem, for example, has in its consumer vulnerability strategy, recognised that the standard provides a useful tool for companies.¹⁰

Recent action by the financial regulator (FCA) on payday lenders provides another example of how governments and regulators could work together to tackle consumer vulnerability and market failure.

In January 2015, the FCA will introduce a cap on the total amount that high-cost short-term credit lenders can charge. The FCA's interest in the 'high cost short term credit industry' is a direct result of powers introduced in the financial services bill by treasury minister Lord Sassoon.¹¹

But the FCA has not appeared to use this as an opportunity to tackle market failure and urge the banks to fill the gap left for those who need short term loans - presumably because it was not directed to do so in the financial services bill. The FCA just observed that those on low incomes, juggling to budget for essential goods and services, *'will be better off without loans'*¹².

As Citizens Advice chief executive Gillian Guy pointed out: *'Not only is the clean-up of the existing market essential, banks need to step up to the plate to offer a responsible micro-loan.'*¹³

Combined action

There are some market developments – like mobile phone banking and pre-paid cards - that may, benefit consumers – including those on low incomes and in vulnerable positions. But if we are to see financial markets working for all consumers, government must develop a strategic approach to tackle the current failings in the market for financial services and other essential goods and services, regulators need to challenge the market through the policies they are developing on consumer vulnerability and companies must recognise that they must be inclusive and meet the needs of all consumers.

If that needs legislation, governments can look to the 'social reporting' powers that already exist under the Companies Act 2006 and consider extending Part One of the Equality Act 2010 to companies providing essential goods and services. This would

¹⁰ Ibid pp 23

¹¹ <http://www.telegraph.co.uk/finance/personalfinance/9709853/Payday-loan-interest-rates-to-be-capped.html>

¹² <http://www.fca.org.uk/news/cp14-10-proposals-for-a-price-cap-on-high-cost-short-term-credit>

¹³ http://www.citizensadvice.org.uk/index/pressoffice/press_index/press_14072014.htm

see companies developing policies 'designed to reduce the inequalities of outcome which result from socio-economic dis-advantage'. At the moment this only a public sector duty.¹⁴

Civil society organisations can become active and trusted intermediaries between the market and consumers - challenging traditional perceptions of consumer vulnerability could fundamentally change the way companies engage with consumer's situations.

But all this needs political leadership and a clear strategic commitment from governments to make markets work. The public policy pledge should be that financial service companies and other companies providing essential goods and services will be inclusive, fair and everyone - not just active consumers - will have access to the goods and services that are essential to everyday life.

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¹⁴ <http://www.legislation.gov.uk/ukpga/2010/15/part/1>