Submission to the Financial Exclusion Committee

About us

1. Money and Mental Health is a new charity set up by Money Saving Expert Martin Lewis. Launched in April 2016, the Institute conducts research and develops policy proposals to break the devastating link between mental health problems and financial difficulties. Half of those with problem debt have a mental health problem - and people with mental health problems are up to six times as likely to face debt crisis.[1,2]

Summary of evidence

2. People with mental health problems sometimes find it difficult to maintain control of their finances during periods of poor mental health. Decisions taken during a period of poor mental health can obliterate savings, create problem debts and damage a person's credit record for many years. As a result people with mental health problems sometimes exist at the edge of formal financial services, lacking access to the tools and products which would help them to manage their money better. In turn, financial difficulties resulting from financial exclusion, for example resorting to high-cost credit or failing to pay bills, can have a detrimental impact on mental health, reinforcing a negative cycle between mental health problems and financial difficulty.

3. Money and Mental Health recommends a number of policy interventions for Government and financial services companies that will reduce financial exclusion of people with mental health problems. These include:

    3.1 There is significant scope for the financial services industry to use new technologies to provide better budgeting tools, settings that enable self-regulation and self-control and sophisticated permission sets that enable carers or trusted third parties to offer support during periods of poor mental health. Financial services providers should work both independently and collaboratively to better meet the needs of customers with mental health problems.

    3.2 Government should launch a major data study of financial difficulty ahead of the Open Banking launch in 2018 - generating greater understanding of the problems consumers face when trying to control their finances, boosting

[1] Jenkins R, Bhugra D, Bebbington P, et al. Debt, income and mental disorder in the general population. Psychological Medicine 2008; 38: 1485-1494.
[2] MoneySavingExpert.com. Mental Health and Debt. 2016.

competition against the big banks and supporting the creation of new products and tools to reduce financial exclusion.

Our evidence in full

Definition and causes of financial exclusion

Question 1 - Is financial exclusion the inverse of financial inclusion and, if not, how do the two concepts differ? What are the causes of financial exclusion?

4. Money and Mental Health views financial exclusion as the inverse of financial inclusion. Financial exclusion describes a situation where a consumer lacks access to financial services which meet their needs. This may reflect a lack of physical access, or being refused service on the grounds of some characteristic - for example being refused insurance because of a medical condition. In other cases, services may be offered, but may not meet customer needs.[3] Money and Mental Health is primarily concerned with financial exclusion as it relates to the provision of appropriate financial services for people with mental health problems, who may experience a range of specific difficulties in controlling their finances.

Question 4 - Do individuals with disabilities, or those with mental health problems, face particular issues in regard to financial exclusion?

5. Mental health problems can, in some cases, lead to financial exclusion. People with mental health problems report that they are unable to access services that meet their needs, particularly services which provide sufficient control over spending and access to credit.[4]

6. In March 2016, Money and Mental Health conducted a survey of 5,500 service users with mental health problems on their financial experiences.[5] While this survey was not representative of the UK population, or of the population with mental health problems, the figures below provide an initial insight into the financial difficulties people with mental health problems experience.[6]

    6.1 86% of respondents said their financial situation had made their mental health problems worse.

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[3] Sharon Collard, Martin Coppack, Jonquil Lowe and Simon Sarkar (2016), *Access to Financial Services in the UK*, Financial Conduct Authority Occasional paper 17
[4] Money and Mental Health Policy Institute (2016), *In Control: A consultation on regulating spending during periods of poor mental health*
[5] Money and Mental Health Policy Institute (2016), *Money on your Mind*
[6] For further methodological information see Money and Mental Health Policy Institute (2016), *Money on Your Mind* p28

6.2 72% of respondents said their mental health problems had made their financial situation worse.

6.3 A very high proportion reported changes in their spending patterns and ability to make financial decisions during periods of poor mental health:
- 93% of people reported that they had spent more than usual when experiencing mental health problems;
- 92% had found it harder to make financial decisions;
- Nearly three quarters (74%) had put off paying bills;
- Seven in ten (71%) told us they had avoided dealing with creditors;
- Over half (59%) said they had taken out a loan that they wouldn't otherwise have taken out.

7. Our survey evidence demonstrates that mental health problems have a substantial and wide-ranging impact on the ability of consumers to navigate the market for financial services, to choose and use appropriate products to manage their money.

8. While the relationship between mental health problems and financial difficulties is complex,[7] we can identify two main ways in which mental health problems lead to difficulties managing financial services and to financial exclusion: cognitive impairments and psychological barriers to action.

8.1 Mental health problems, and some treatments for mental health problems, cause cognitive impairments. Respondents to our survey reported that their mental health problems:
- Impeded their ability to comprehend numbers, construct and adhere to a budget;
- Substantially altered their ability to make sensible, balanced or rational decisions;
- Made them unable to deal with form filling and other bureaucratic requirements of day-to-day financial management or applications for debt relief; and
- Made them forgetful. Respondents described difficulties remembering appointments, purchases, paying bills and making financial decisions, which in some cases led to additional charges or fees.

8.2 In addition to these cognitive impairments, psychological factors make it difficult for people with mental health problems to control their finances. These

[7] For further details see mapping in Money and Mental Health Policy Institute (2016), *Money on your Mind*, p15.

include being in a state of denial, phobic about finances or disengaging completely from contact with creditors and financial services providers, for example by refusing to open the post, answer the telephone or door, or check bank statements.

9. Some people with mental health problems report that their behaviour during periods of poor mental health damages their credit rating and leads to financial exclusion. The comments below are drawn from verbatim responses to questions in our March survey:

    9.1 "*I had a period of mania in 2012-2013 and got into over £10k worth of debt. I ended up being hospitalised and my dad freezing my bank account. It was all a horrendous experience but the aftermath is worse. Although many debtors have written off the debt my credit rating is shot to pieces and I can't even get a current account in my own name!*"

    9.2 "*During both episodes of depression & mania I ran up around £70,000 of debt on credit cards, store cards, bank loan & remortgaged. I can no longer get any credit at all which is probably a good thing except when large expensive items break down.*"

10. In some cases a lack of appropriate products leads people with mental health problems to self-exclude from some financial services. The comments below are drawn from verbatim responses to questions in our March survey:

    10.1 "*I don't have any credit cards, store cards or loans, etc as I am not eligible for most, but also because I don't feel it's a good idea for me to have these at my disposal during periods when I'm particularly unwell.*"

    10.2 "*I no longer have credit cards and will cancel my overdraft once it has been paid off. Although this can make things awkward at times (for example if I want to buy something online I would like to be able to use a credit card as it offers extra financial protection etc) I can't trust myself to be able to make good financial decisions when I'm ill, so it is not worth the risk.*"

11. In these cases financial services products which fail to meet the needs of people with mental health problems create financial exclusion. Individuals who are unable to access mainstream lending like credit cards, overdrafts or bank loans because they have damaged their credit rating during past periods of poor mental health may be forced into high-cost alternatives where barriers to lending are lower, increasing the risks. Other people with mental health problems are unable to access the benefits of

credit card use, for example added consumer protection, because they don't feel these products offer them adequate control during periods of poor mental health.

12. Financial exclusion can also lead to or worsen existing mental health problems, and is associated with significant psychological costs over and above those associated with low income or deprivation.[8] Many of those in financial difficulty report anxiety, worry and depression directly attributed to their financial situation. Insomnia and suicidal ideation are also prevalent. The actions of creditors, demands on time or mental energy (for example needing to go to a branch to pay bills), going without 'essentials', relationship difficulties resulting from money problems and the inability to take part in activities which support wellbeing (e.g. socialising) can all have a negative impact on mental health problems.

Addressing financial exclusion - principles

Question 7 - What role should the concept of 'personal responsibility' play in addressing financial exclusion?

13. Many mental health conditions fluctuate. People will have periods, sometimes years at a time, when they are healthy, and able to manage their finances in exactly the same way as everyone else. But there will be periods of time when they are unwell, during which they require additional support to control their finances. During these periods providers should make necessary adjustments to ensure that customers understand the choices they are making.

14. Interventions to reduce financial exclusion must respect the rights of individuals to make their own decisions, even when these may appear unwise to others. Instead, Money and Mental Health believes the objective of policy should be to empower consumers to better control their own behaviour. Solutions should allow people to reinforce their own 'normal' or 'healthy' preferences, deterring divergence during periods of poor mental health, rather than making normative judgements about the 'right' behaviours. Many of the interventions that would help make financial services more accessible and inclusive to people with mental health problems take the form of voluntary settings or controls which would allow people, during periods of good mental health, to put temporary barriers in place which would protect them during periods of poor mental health - for example, limits on daily spending or on access to credit.

[8] Mark Taylor, Stephen Jenkins, Amanda Sacker (2011), *Financial capability, income and psychological wellbeing*, ISER Working Paper No. 2011-18. Low financial capability, in reducing a consumer's ability to control their finances, is analogous to a form of financial exclusion.

Question 7 - Is appropriate support available for the most excluded and if not how should support be strengthened?

15. The survey evidence described above suggests that, at present, financial services providers are not making sufficient adjustments to allow people with mental health problems to control their finances as well as they would wish. Some people with mental health problems become financially excluded as a result.

16. Our research further suggests there are significant problems around the assessment of mental capacity at the point of sale of credit products. In our March survey, we asked respondents to consider how their mental health problems had affected their decision-making in applications for credit that they had made during the past 12 months, using the criteria of the Mental Capacity Act 2005. The law and regulatory guidance expect lenders to assume that all borrowers have the mental capacity to make an informed decision about a loan unless they know or reasonably suspect that mental capacity is limited. However, our evidence suggests that, at present, lenders are not doing enough to check consumer understanding of products. We found that:

- Nearly a quarter (24%) said they were unable to understand the terms and conditions;
- Over a third (38%)said they were unable to remember what they had been told about the loan;
- Almost half (48%) said they were unable to weigh-up the advantages and disadvantages of the loan; and
- A third (34%) said they were unable to communicate their decision, ask questions or discuss the loan with the organisation they applied to.

17. This evidence suggests that there are weaknesses around the assessment of mental capacity at point of sale of credit products. While the principles of individual autonomy and personal responsibility must be respected in the making of policy around financial exclusion, this must be counterbalanced by the need to ensure that people with mental health problems are adequately protected and offered support where necessary to ensure they understand the options available and the decisions they make. Failure to do this means people with mental health problems could take out products which they do not need or are unable to afford during periods of poor mental health and suffer the consequences through problem debt and the negative impact on their credit scores for many years to follow, leading to further financial exclusion.

18. Financial services providers should consider ways in which customer understanding could be checked during online credit application processes. While individuals should

not be prevented from accessing credit unless there are significant reasons for doubting that they have mental capacity, some soft checks could help providers to test the consumer's understanding of a given product, and to offer additional support if necessary. This could work in the same way as current fraud protection - if a bank is concerned that transactions are fraudulent, they often call consumers to check that all is well before processing them. A similar phone check or other pause in a credit application process would allow providers to ensure that people with mental health problems understand the decisions they are making and have had time to seek further support - from a family member, carer or the provider - if required.

Addressing financial exclusion - potential solutions for people with mental health problems

Question 8 - Are appropriate financial services and products available for those who are experiencing financial exclusion? What might be done to address any deficit? What role should banks play in increasing access for those most at risk of exclusion?

19. The financial services sector has made huge progress in recent years in the way it deals with customers with mental health problems who find themselves in financial difficulties. However there is much more to be done to develop products, settings and systems to help people stay out of financial difficulties in the first place. With high numbers of people reported changes in spending and financial management during periods of poor mental health, it is clear many people with mental health problems need more help to avoid financial harm when they are unwell.

20. An overriding theme in the desires of people with mental health problems is for financial services to offer them greater control. This takes the form of three main product characteristics:

A) Better budgeting tools

21. Fintech innovations like third-party aggregators provide opportunities to offer people with mental health problems greater control over their spending. These apps can offer, for example, jam-jar budgeting tools, nudge-type notifications of deviations from pre-set 'norms', restrictions from spending at certain merchant categories or delays before processing large payments.

22. In many cases technical tools to allow consumers to manage their money in these ways already exist. Fintech tools such as Squirrel[9] and Think Money[10] already offer jam-jarring services; pre-pay cards designed for children (e.g. Osper[11] and Go Henry[12]) restrict the card holder from spending in certain categories of merchant, most notably gambling. We foresee a role for Government in supporting further development of these and other tools prior to the introduction of Open Banking in early 2018 by ensuring that researchers and fintech developers have access to the data needed to explore the financial behaviours of UK consumers and build specific solutions to the problems faced by financially excluded customers.

23. With the shift towards encouraging personal financial responsibility in the rollout of Universal Credit, local governments may also want to consider the possibility of offering a similar budgeting service to service users to break monthly payments into weekly budgets and support prompt rent payments. This would provide additional protection for people with mental health problems who may need additional assistance to control spending during periods of poor mental health.

B) Limited access to credit

24. People with mental health problems have told us they would like the option to exclude themselves from credit altogether, or from certain types of credit. At present, there is no effective system to help them do this.

    24.1 "*I'd love to be able to contact my bank and say I've got mental health issues and when I'm in a really low place I would like to put a restriction on my bank account... If that had happened I would be hundreds of thousands of pounds better off.*"

    24.2 "I think there should be an option to freeze credit if need be when depression sets in… thinking ahead and putting things in place for just incase"

25. Consumers can place a Notice of Correction on their credit file notifying lenders that they live with a mental health problems and requesting that they not be lent to. However this can be removed by the individual and there is no requirement not to lend to a person with such a note on their credit file. Some lenders, including pawnbrokers and home credit providers, do not use Credit Reference Agencies, and

[9] https://squirrel.me/
[10] https://www.thinkmoney.co.uk/
[11] https://osper.com
[12] www.gohenry.co.uk

so would not see such a note even if the consumer did attempt to put this protection in place.

26. While providers and industry bodies may not be able to create a way of excluding a customer permanently from credit, we would urge the Government and industry to work together to explore ways in which people with mental health problems can restrict their access to credit. This could include self-exclusion from particular forms of credit, or certain application channels (e.g. online).

C) Appropriate and flexible third party access

27. Many people living with mental health problems rely on help from a partner, parent or other carer to manage their finances, as illustrated by the following verbatims from our March survey:

    27.1 "*Having a joint credit card helps as someone else can query my spend*"

    27.2 "*I've given my dad and my husband access to my credit scores and reports so they can keep a check on me at any time and I won't even know when they are doing it. I don't mind that big brother is watching because I'm not tempted to go back to my old ways with such a simple process in place.*"

28. At present the options for third party access to accounts in the UK are very limited. People with mental health problems sometimes rely on joint accounts, which expose another person to potential financial risks, or use their own strategies like giving their bank cards to a trusted family member or friend.[13] At the extreme, these limitations can leave people requiring inpatient care for mental health problems without any access to banking services and facing substantial financial problems such as unpaid bills and overdraft fees when they leave hospital.

29. While concerns about financial abuse rightly mean that the bar for allowing third party access to accounts is high, there are softer options which could help carers to support people with mental health problems to manage their finances. Most banks, for example, already offer text alerts about balances or overdraft use - financial services providers should explore whether these could be shared with a trusted third party.

[13] In addition to the evidence provided in our survey, FCA Occasional Papers No. 8 and No.17 provide substantial evidence of the ways in which consumers create their own strategies where existing financial products do not meet their needs.

Government policy and regulation

Question 13 - To what extent is the regulation of financial products and services in the UK tackling financial exclusion? Are alternative or additional regulatory interventions required to address financial exclusion?

30. Money and Mental Health recognise the valuable work carried out by the FCA around access to financial services and customers in vulnerable circumstances. We believe that, as written, existing regulations provide sufficient protection to people with mental health problems. However in practice there is clearly more to do to ensure that financial services firms put in place clear and effective policies to identify customers with mental health problems and to deal with them appropriately. The FCA's Treating Customers Fairly initiative includes a set of customers outcomes to be expected of firms,[14] including designing products to meet people's needs, but at present our evidence suggests the needs of people with mental health problems are not being met. Financial services providers, the FCA and Government need to work together to establish what good services for people with mental health problems look like, and to make sure these are made available.

31. The FCA has recognised that financial services firms with a wealth of consumer transaction data and analytical expertise are likely better placed than individuals to forecast the likely needs of consumers.[15] We would encourage the Government to work together with the industry to make the best possible use of financial data, to build greater understanding of how customers' financial behaviour changes with mental health problems and to challenge firms to create more flexible products which better meet the needs of consumers.

Question 10 - How effective has Government policy been in reducing and preventing financial exclusion? Does the Government have a leadership role to play in addressing financial exclusion?

32. Government policy has had notable success in reducing financial exclusion in terms of access to products, most notably through the introduction of basic bank accounts. There is, however, much more work to be done in ensuring that people with mental health problems are able to access appropriate products that meet their needs and

[14] Martin Coppack, Yasmin Raza, Simon Sarkar and Kate Scribbins (2015), *Consumer Vulnerability*, Financial Conduct Authority Occasional Paper No. 8.
[15] Martin Coppack, Yasmin Raza, Simon Sarkar and Kate Scribbins (2015), *Consumer Vulnerability*, Financial Conduct Authority Occasional Paper No. 8.

help them to control their finances effectively, in line with the Prime Minister's stated desire to support families who are 'just managing'.[16]

33. We believe the best way for the Government to achieve this is to create a new groundbreaking project collecting financial transactions data from 50,000 consumers, providing insights on day-to-day consumer behaviour previously only available to banks, helping us to understand the experiences of those experiencing financial exclusion and to build tailored solutions.

Financial Technology (Fintech)

Question 14 - Does the Government have a role to play in ensuring that the development of financial technologies (Fintech) and data capture helps to address financial exclusion? If so, what should this role be?

34. A wealth of information about the financial behaviour of households is hidden in their bank accounts. Banks can aggregate and segment this data to find new market niches and develop new products. But it could also be used to better understand consumer experiences - how do spending patterns, savings levels and credit use change in periods of poor mental health, when relationships break down, or when people are bereaved? When are people most likely to begin running up credit arrears? A greater understanding of financial behaviours, seen through real transactions data rather than survey responses, will help us identify the causes and consequences of financial exclusion, in time, offer families the tools to cope better.

35. We propose that the Government should create a revolutionary new project to do just this: collecting historic financial transactions data from 50,000 volunteers - the financial equivalent of the internationally renowned 100,000 genome project. Two or three years worth of financial transactions from this many people would provide a unique global resource, an insight into day-to-day financial decision-making that would revolutionise understanding of the difficulties consumers face when trying to control their finances and facilitate efforts to design practical solutions to financial exclusion.

36. By applying techniques of machine learning to data at this scale, we will be able to identify patterns of financial behaviour which correlate with, or predict, mental health problems and will help people deal with them. With information on the patterns to look for, banks or fintech firms could then build tools to help identify customers who might

[16] https://www.gov.uk/government/speeches/statement-from-the-new-prime-minister-theresa-may

be at risk and design interventions to help minimise harm - for example by directing customers who are increasingly in arrears to tailored budgeting support.

37. The introduction of Open Banking towards the end of this parliament offers a fantastic opportunity to put the power of data back in the hands of consumers. At the moment it's only the existing giants who have access to this data. Opening up access, in a secure manner, to this unique data resource, prior to the full introduction of Open Banking, would provide fintech firms with an opportunity to better understand the difficulties consumers encounter when managing their money and to build new products to better meet the needs of financially excluded customers. An ambitious Government-led data programme would ensure that Open Banking drives a revolution in financial services for customers who are currently excluded rather than just improving experiences for those who are already well-served.

Recommendations for financial services providers

38. Financial services providers should explore ways to offer additional settings, systems and products to people with mental health problems to increase the degree of control they can exercise over their finances. This could include:

    38.1 Improving the provision of budgeting tools, nudge-like prompts around spending and other interventions likely to improve individuals' awareness of their financial behaviour.

    38.2 Cross-industry working to consider ways in which consumers could restrict their own access to credit.

    38.3 Minimum standards to help carers support those with mental health problems to maintain access of their money, for example sharing existing text message alerts about balances or overdraft use with a nominated third party.

39. Credit providers should consider ways in which understanding could be checked during online credit application processes. While individuals should not be prevented from accessing credit unless there are significant reasons for doubting that they have mental capacity, some soft checks could help providers to check the consumer's understanding of a given product, and to offer additional support if necessary.

Recommendations for Government

40. Government should launch a major data study of financial difficulty ahead of the Open Banking launch in 2018 - generating greater understanding of the problems

consumers face when trying to control their finances, boosting competition against the big banks and supporting the creation of new products and tools to reduce financial exclusion.

Recommendations for Regulators

50. Build on positive work to date, with a greater focus on encouraging and embedding good practice around meeting consumer needs.

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