MONEY AND MENTAL HEALTH
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Busting the banks open - how open data could boost competition in the financial services sector, support fintech and help vulnerable consumers

Summary

The Open Banking Standard and remedies prescribed by the recent Competition and Markets Authority investigation on retail banking recognise the value of providing consumers with access to their own data. Armed with this insight into their own behaviour and situation, consumers are empowered, through technology, to make better decisions and save money.

However, the tools that consumers must use to make use of their own data need to learn what patterns they're looking for if they are to provide much-needed budgeting support for British families who are just managing to make ends meet. This paper sets out the case for a major data study of financial difficulty ahead of the Open Banking launch in 2018 - boosting competition against the big banks and improving financial wellbeing.

Access to a large volume of transactions data would boost competition in the UK's financial services markets, by providing new fintech firms with access to data currently only available to large incumbent banks. It would also allow for the timely application of machine learning and artificial intelligence techniques which would allow firms to build predictive and supportive tools to boost the financial capability of UK consumers, particularly those experiencing mental health problems or other forms of vulnerability. Together, these tools could help families who are struggling or only just managing to make ends meet to better understand and control their financial situations.

Background: Why do we need better use of data in the UK's financial services industry?

For all consumers

Across the UK, financial capability is low. Over a fifth of people can't read the balance on a bank statement, one in six people are over-indebted, and nearly a quarter of people (23%) either rely on credit card borrowing or use high cost short-term (payday) loans.[1] More than 16 million people have less than £100 in savings - meaning something as simple as the washing machine breaking down could place them in serious financial difficulty.[2]

The Government has already committed to helping families who are 'just managing' or struggling financially. Spending on essentials like water, energy, housing and health services already accounts for around 40% of household spending,[3] although in many cases there is potential for consumers to save money on these items.[4] If, as is widely expected, the economy slows in coming months this will be ever more necessary; rising inflation as a result of Sterling's depreciation will

[1] The Financial Capability Strategy for the UK, 2015
[2] Money Advice Service, Closing the Savings Gap, 2016
[3] HMT, A better deal: boosting competition to bring down bills for families and firms, 2015
[4] Richards, B. Should Switch, Don't Switch: Overcoming Consumer Inertia, 2015

start to hit pockets while uncertainty is likely to subdue wage growth. The ability to budget, pick the right financial products and navigate markets for key goods and services is crucial to help families make the most of their money and improve their circumstances.

For people with mental health problems

Consumers with mental health problems may face particular difficulties managing their finances. In April 2016, the Money and Mental Health Policy Institute surveyed nearly 5,500 people with experience of mental health problems, and found that:

- Nearly three-quarters said their mental health makes their financial situation worse
- 86% said their financial situation makes their mental health problems worse
- 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.

While the relationship between mental health problems and financial difficulties is complex,[5] 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. Firstly, 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 administrative 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.

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

How fintech can help the 'just managing'

Low financial capability in the UK is complex and cultural, often stemming from a lack of ease with mathematics and low confidence with financial matters. Fixing this among the adult population is incredibly difficult. The problem is even more difficult to tackle for people experiencing mental health problems, which have specific effects on financial capability at exactly the point when people are least able to tackle them.

Thankfully, raising basic skills is not the only way to improve financial capability. Instead, there is much that can be achieved by providing consumers with better tools to help manage their money. These tools could be even more important for the quarter of the population experiencing a mental health problem.

New fintech tools such as Squirrel and Money Dashboard provide advanced, real-time budgeting interfaces which make it easier for consumers to understand, and to manage, their spending behaviours. Intuitive visual information about an individual's financial situation can now be combined with tools like virtual jam-jarring, which make it easier to put money aside for essential bills, to save for a rainy day, or to stretch a

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

paycheck over the month and avoid borrowing. These products could be particularly helpful to people experiencing mental health problems, helping them to maintain control of their finances during periods of poor mental health. Members of Money and Mental Health's research panel have been enthusiastic about the idea of using fintech tools to improve their financial management:

"When I am feeling unwell it's like I lose all sense of reality. I'm living and breathing someone's else's air, spending someone else's money...That email, text whatever, gives you that checkpoint to take you back into reality."

"An automatic bank budgeting scheme [would be helpful] as I can't face knowing what my situation is when I am aware that I am in greater debt than I can pay off. Paying bills and maintaining financial stability is crucial in preventing my mental health deteriorating."

"[It would be helpful] if it was one pot, but you could ringfence money for bills, luxuries, necessities, be able to tailor your bank."

But to develop these tools, and to build the facilities that would help consumers - with or without mental health problems - to manage their money better and improve their quality of life, we need a better understanding of how and where consumers run into financial difficulty. By spotting the early signs and symptoms, we will be better placed to offer support and advice which could prevent both financial hardship and mental health crises.

The power of data

"They know, they have all this data - give a little bit back, come on guys!"

Money and Mental Health focus group participant, 20/10/2016 on banks' use of data.

Data about what consumers do with their money is, for the most part, already collected, in real time, by banks and building societies. These organisations have the records of most ingoing and outgoing financial transactions. While they won't capture spending in cash, thanks to contactless payments this accounts for a decreasing proportion of economic activity.[6] Looking inside bank accounts will increasingly provide a comprehensive understanding of the financial situation of Britain's consumers.

Banks already 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 find sources of financial difficulty and, in time, offer families the tools to cope better.

Our proposal - a unique research project

We propose that the Government should launch a major data study of financial difficulty ahead of the Open Banking launch in 2018, in order to:

- Generate world-class understanding of consumer behaviour in the financial services, utility and other markets;
- Boost competition in the financial services industry;
- Put the UK financial technology industry in a leading position, globally, to develop useful new products for the domestic and international markets; and
- Support the creation of new products and tools which could help individuals and families, including those in vulnerable circumstances, who are just managing or struggling to
    - Control their finances more effectively
    - Improve their financial capability
    - Protect themselves from fraud and self-harm

[6] Payments UK, UK Payments Markets - Summary, 2016

The government should recruit 50,000 volunteers from the general public, asking them to provide access to two or three years of their financial transactions history along with biographical and demographic information. Once centrally collated and suitably anonymised, this wealth of data will allow researchers to analyse the financial situations of different groups, and create the opportunity for providers to come up with specific solutions. Access to data at this scale will allow experts from a variety of disciplines to begin using new tools like machine learning and artificial intelligence to analyse the financial situation of UK consumers and understand where problems are arising. In time, this should allow providers and innovators to build pre-emptive support for consumers into the system, building tools which can spot signs of possible financial difficulty and offering consumers help creating strategies to overcome the problems.

In the simplest case, data could be collected solely from current accounts. Collecting information on the full range of financial products used by a consumer, including credit products and savings accounts, would allow analysts to develop a deeper understanding of how consumers use combinations of products and how they interact. For example, it would allow analysts to explore whether mortgage arrears are associated with changes in current account transactions, which could draw attention to patterns that could be used by providers to signpost those at risk towards advice and support, hopefully preventing financial crisis.

Only government has the power to organise a project of this scale and complexity ahead of the introduction of Open Banking in early 2018. The slow progress to date of the development of the open banking protocol, and the fact that the CMA have felt the need to impose a deadline on its development, demonstrate that a further central push is required to drive this transformative data project. Part of the delay is, understandably, the need to ensure systems for sharing personal transactions data are properly secure, and that necessary regulation is in place to make sure firms don't use increased access to data as a reason to deny service. The Government, however, is uniquely placed to utilise its expertise at holding sensitive data to overcome these difficulties and drive a cross-industry effort to get a practical pilot up and running quickly.

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, by enabling new providers to compete on a level playing field with those who have a legacy of customer data.

Strengthening competition in the financial services industry

Like the 100,000 Genome project, this unique data collection exercise would help secure the UK's place as a global leader, this time in the world of fintech. Two or three years worth of financial transactions from this many people would provide an internationally-unique resource, an insight into day-to-day financial decision-making that would help UK fintech firms be the best in the world at understanding consumers.

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 is only the existing giants who have access to this data, which means their competitors struggle to keep up with their consumer insights. Fintech firms need data to test their tools. As the Regulatory Sandbox operated by the FCA has allowed fintech firms to test products with consumers in a safe space before taking on the full regulatory process, this data project would provide them with the data required to create ground-breaking products ahead of the introduction of Open Banking in 2018. This would help drive an unprecedented level of competition in the financial services market, creating more choice, more innovation and better services for consumers.