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Podcast 3: Access to cash and FCA Occasional Paper (No 58)

Jo: Welcome to the latest episode in the Allen and Overy podcast series In Credit where we discuss a range of retail finance topics. My name is Joanne Owens and I'm counsel in Allen & Overy financial series regulatory group. I'm joined by senior associate Victoria Ferris and also associate Sophie Skeet.

In this episode we're going to take a look at two recent publications impacting the retail finance sector. Firstly we're going to discuss the Treasury's recent call for evidence on access to cash and then separately we'll dive into the FCA's occasional paper number 58 and understand the consumer financial wellbeing through banking data. First up we have the Treasury's call for evidence on access to cash which follows on quite nicely from our first podcast on ATM and branch closures.

HM Treasury's Call for Evidence on Access to Cash

Victoria: First up we have the Treasury's Call for Evidence on Access to Cash which follows on quite nicely from our first podcast on ATM and branch closures.

Sophie: It's like we planned it!

Victoria: Exactly! The Call for Evidence was published in October 2020 and follows on from the Government's commitment in the 2020 Budget to develop legislation to maintain access to cash. Since that budget statement, the Government has been working on the development of legislation, as well as working with regulators and industry. Now the Government has reached out through the Call for Evidence with a view to the responses informing the development of new legislation.

Jo: But this isn't a new issue is it? Ensuring access to cash has been a focal point for some time.

Victoria: No, it's definitely not new, but Covid-19 has stepped things up a notch. While the UK Government, regulators and industry having been working together over the past few years to preserve access to cash, the impact of the pandemic has really highlighted why financial inclusion and access to essential banking services, including cash, remain such important issues. For more details on the significance of financial inclusion, check out our podcast from 19 October!

Sophie: In terms of approach, the paper explores access to cash by looking at current models in relation to cash withdrawal facilities, cash deposit-taking facilities and cash acceptance. It then raises questions on each model. Respondents are asked to outline how the UK Government can ensure that cash-users don't get left behind in a society that increasingly favours card, mobile and electronic payments. For example, in relation to cash withdrawal facilities, the paper asks whether there's potential for cashback to play a greater role and, if so, how legislation could help to increase the adoption of cashback.

Jo: The Call for Evidence doesn't just examine the cash infrastructure. It also looks at regulatory oversight of the cash system and notes that a number of government and regulatory bodies play different roles and have different responsibilities. Established in May 2019, the Joint Authorities Cash Strategy Group has brought together members from the Bank of England, Payments Systems Regulator and the FCA to facilitate coordination between these different bodies. Nevertheless, while the JACS Group initiatives have increased co-ordination and oversight, is not a decision-making body.

The paper therefore asks whether the Government should give a single regulator overall responsibility for **maintaining a well-functioning retail cash distribution network.**

Victoria: Does it suggest who could take on that role?

Jo: Well it seems the Government's view is that the FCA may be well-positioned to take on that role given its oversight over deposit-taking institutions and its statutory objective to secure an appropriate degree of protection for consumers. If such a model were adopted, the paper states that the Bank of England and the Payments Systems Regulator would continue with their existing functions.

Sophie: It'll be interesting to see what comes out of it and no doubt it'll be featured in a future podcast. Just to flag, the Lending Standards Board has published guidance on its Access to Banking Standard which is available on the Lending Standards Board website.

Occasional Paper No.58 on Understanding Consumer Financial Wellbeing through Banking Data

Jo: Think that's it for the Access to Cash Call for Evidence. Let's move on to talk about the FCA's Occasional Paper No.58 on Understanding Consumer Financial Wellbeing through Banking Data.

Victoria: Yes, slightly different topic but no less timely. The paper was published by the FCA on 20 October and the question at the heart it is how to measure consumer financial wellbeing: the FCA explores the merits of open finance and using objective data to understand individual customer circumstances.

In order to assess financial outcomes for consumers, the FCA investigates the link between objective financial wellbeing, measured with bank account data, and consumers' subjective financial wellbeing, based on consumers' self-reported perception of their personal finances. This differs from previous approaches, which have focused either on objective data or subjective, survey-based consumer research, but not sought to integrate the two.

Sophie: This paper's aim is to understand the objective factors most closely associated with low subjective wellbeing, i.e. money management stress, and shed light on why consumers experience their financial circumstances in such different ways. For example, you'd think that a consumer having more money correlates to greater satisfaction with their finances – but it isn't always the case.

Jo: Exactly - the paper recognises that financial wellbeing is a multifaceted concept and that measuring how consumers fare financially is also difficult. Past research has indicated that there is a link between subjective and objective metrics, but there is a question as to what these objective metrics should be.

Sophie: In any case, the development of Open Banking will make it easier for consumers selectively to share account data with third parties, meaning the pool of customer account data available to predict financial distress and wellbeing will grow over the coming years.

Victoria: Let's dive into some of the details. We've mentioned the phrase "financial wellbeing" a few times now. The paper does actually define what this means – so it is defined as "…a state of being wherein a person can fully meet current and ongoing financial obligations, has the capacity to absorb financial shocks when they occur, can feel secure in their financial future, and is able to make financial choices that allow enjoyment of life".

Jo, how have they gone about researching this?

Jo: It's actually really interesting. Consumers are asked to report on how they feel about their financial situation by responding to a questionnaire that asks them to indicate the degree to which they identify with particular statements such as "My financial situation controls my life". The paper then matches these subjective responses with objective financial data relating to that consumer to see whether this objective data can be used to predict which consumers have low financial wellbeing.

Sophie: The paper examines potential indicators of low subjective wellbeing such as demographics, average balances, use of credit and digital banking, as well as the role of volatility in spending, income and bank account balances. Understanding volatility is becoming more important due to economic disruption from Covid-19 as well as other issues such as zero-hours contracts.

The research tested these indicators using a dataset that links over 2,500 consumers' self-reported financial wellbeing with granular transaction and activity data from their personal current accounts, including mobile and online registration and log-ins. The research used up to 11 months of account data to construct average measures of key variables such as account balance, income, credit usage and also variances in them (such as income volatility).

Jo: This approach is based on the premise that people's financial wellbeing comes from everyday experiences of receiving income, spending, borrowing and tracking money in their bank account. If that is the case, studying these experiences can help us understand why some people feel good about their financial situations and others do not. The paper also states that many of the factors affecting financial wellbeing also relate to consumer vulnerability.

Sophie: Now we've touched on the methodology behind the research, what do you both make of the findings?

Victoria: There are a number of key findings set out in the paper.

Firstly, it suggests that subjective financial wellbeing is correlated with a number of objective metrics that we can straightforwardly derive from bank account records, such as income, available liquidity and overdraft usage. Essentially, people with higher incomes, more liquidity and fewer days in overdraft report higher financial wellbeing.

Jo: Other significant predictors of financial wellbeing were whether someone had a large available overdraft limit and had greater month-to-month variability in both their balance (a negative correlation) and their spending (a positive correlation). In other words, account balance volatility is negatively correlated with wellbeing and that spending volatility is positively correlated with wellbeing. The strongest overall indicator of low financial wellbeing was the number of days spent overdrawn – this isn't surprising and ties in with the significant amount of work the FCA has carried out over the past few years in relation to overdrafts.

Victoria: By contrast, the researchers did not find associations with demographic characteristics like gender and age. The researchers also found that there is no relationship between income volatility and subjective financial wellbeing – those with greater fluctuations in monthly inflows into their accounts do not report lower financial wellbeing. That's interesting, since financial security has long been considered a measure of success and happiness – this result may be related to changes in traditional employment models whereby many are more used to a higher degree of variation in their monthly income.

Sophie: In terms of what happens next, the paper notes that there are several ways in which the FCA's research can inform future work.

First, the measure of subjective financial wellbeing can be used to quantify the psychological impact of changes in objective financial wellbeing. Second, the paper shows that data derived from consumers' bank accounts (with their consent) can help identify consumers with lower financial wellbeing. Third, the findings on financial volatility raise a number of interesting questions for further research, particularly, on the different possible metrics of irregular income or expenditure.

Jo: Being able to predict which customers might have low financial wellbeing has a number of implications. Will these findings mean that the approach of matching bank account data with subjective consumer responses can improve consumer welfare? Can the findings be used to help pro-actively identify those customers who may need extra support?

As with any positives, there are also negative aspects which need to be considered. Persons with access to customer data might, in reliance on these findings, seek to exploit the most susceptible consumers or target them in ways which may not be in their best interests. The paper therefore suggests that there is a real and urgent need for policymakers to ensure that individuals are protected against the potential abuse of data collection and modelling technologies.

Victoria: Another watch this space then?

Jo: Exactly! That brings us to the end of this episode. As ever, if you do have any questions about what we have covered in this podcast, or any requests on what you would like us to cover in future podcasts, then please do reach out to us by phone or email.

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