

Smart Data: Putting consumers in control of their data and enabling innovation

Money and Pensions Service response

About Us

The Money and Pensions Service exists to help people make the most of their money and pensions. We were created under the Financial Guidance and Claims Act 2018, bringing together the Money Advice Service, The Pensions Advisory Service, and Pension Wise, under one body.

The Money and Pensions Service is an Arms' Length Body, sponsored by the Department for Work and Pensions, with a vision of "Everyone making the most of their money and pensions" by ensuring that people throughout the UK have guidance and access to the information they need to make effective financial decisions over their lifetime. We deliver this across;

- Pensions guidance - to provide information to the public on matters relating to workplace and personal pensions.
- Money guidance - to provide information designed to enhance people's understanding and knowledge of financial matters and day-to-day money management skills.
- Debt advice - to provide people in England with information and advice on debt.
- Consumer protection - enabling us to work with Government and the Financial Conduct Authority (FCA) in protecting consumers.
- Strategy - work with the financial services industry, devolved authorities and the public and voluntary sectors to develop and coordinate a national strategy to improve people's financial capability, help them manage debt and provide financial education for children and young people.

We are funded by levies on both the financial services industry and pension schemes.

1. Executive Summary

- The Money and Pensions Service (MaPS) believes that smart data has the potential to create better outcomes for consumers across sectors and markets, including improving financial wellbeing and capability. The features of smart data models could enable consumers to switch services seamlessly to better deals and support consumer ability to manage their money and pensions, which in turn can prompt greatest interest and engagement with other aspects of their finances.
- Delivering this potential will depend on building consumer trust, through regulatory safeguards and accreditation of market players, but also through greater consistency of approach to create more familiarity for consumers in the new transactions and steps required in giving consent or accessing data.
- There is also significant potential to use smart data to identify consumers in vulnerable circumstances at greatest risk of financial or other detriment, both within and across sectors and markets.
- However smart data innovation also presents a significant risk that it will advantage the more engaged consumers at the expense of those in more vulnerable circumstances including those with lower levels of digital skills.
- Markets alone cannot guard against this risk and MaPS believes that government must consider introducing some regulatory principles that introduce a ‘duty of care’ to ensure that new smart data solutions both identify and address the impact for consumers in vulnerable circumstances.

Our detailed responses are set out below and focus on areas where we can contribute our knowledge and expertise.

2. Consultation questions

Enabling data driven innovation in consumer markets

1. Do you agree with the proposed objectives and expected benefits of Open Communications? Are there any other benefits or risks that we should consider?

- 1.1 We agree with the proposed objectives of Open Communications and that it would be of benefit to consumers who often have to navigate complex markets, especially where they are comparing deals on factors beyond price such as connectivity and service levels. The ability to secure the best deals in the communications sector would be facilitated by such a proposal, and representing a significant cost for households, could offer substantial savings.

- 1.2 Our focus as an organisation is on encouraging financial capability, defined as a person's ability to manage money and pensions well, both day to day and through significant life events, and to handle periods of financial difficulty. Our Financial Capability Survey¹ is a nationally representative study of adults living in the UK, and our 2018 survey included a review of how well respondents were managing money day to day through behaviours like managing credit, active saving and keeping track of spending.
- 1.3 One of the behaviours we track as indicative of good financial capability is the extent to which people shop around for better deals, and we found that only 57% of people were shopping around for better deals on TV, internet and phone packages, compared to 59% for electricity and gas, and 70% shopping around for better home or car insurance deals. It is clear from this that there is significant potential to use smart data to make the process in relations to communications providers as smooth as it is deemed to be in relation to insurance products.
- 1.4 We believe that the opportunity to facilitate for and encourage consumers to switch their communications provider can also reinforce, embed and help build financially capable behaviours. Over time, this can extend beyond that essential service by providing evidence of significant savings and building consumer confidence in switching providers and products in other areas. However, this can only happen if switching processes are seen to be clear and reliable, with enough opportunity for consumers to reconsider decisions. Any solution developed will need to be consumer led to ensure that early adopter experiences are positive and create strong word of mouth referral, unlike the early days of switching in energy markets for example.
- 1.5 An approach to open communications must drive wider inclusivity across different consumer groups, otherwise, there is a significant risk that measures will benefit consumers who are already highly engaged in markets and digital solutions at the risk of more inert, less confident consumers. The greatest risk of this is for those most digitally excluded, who are generally those consumers in more vulnerable circumstances. The Lloyds Bank UK Consumer Index 2018² estimates that the number of people in the UK lacking basic digital skills is declining, but in 2018, 8% of people in the UK (4.3 million people) were still

¹ Financial Capability Survey, 2018

<https://masassets.blob.core.windows.net/fincap-cms/files/000/000/386/original/UK-financial-capability-levels-UK-poverty-statistics-research.pdf>

² UK Digital Index 2018

https://www.lloydsbank.com/assets/media/pdfs/banking_with_us/whats-happening/LB-Consumer-Digital-Index-2018-Report.pdf

estimated to have zero basic digital skills. A further 12% (6.4 million adults) were estimated to only have limited abilities online.

- 1.6 In our survey data, where we found that while 68% of 18-24-year olds were shopping around for a better communications deals, this was nearly half as many (35%) of people in retirement and we believe that some of this is attributable to lower levels of digital engagement. Similarly, nearly three-quarters (71%) of people with a household income of £50,000+ shop around for best utility prices, compared with less than half (46%) of those with an income below £17,500³.
- 1.7 Any efforts to extend digital technology to boost competition in more markets must consider how to develop digital skills in parallel or we risk leaving those who are not digitally engaged further and further behind. Our 'What Works Fund' led us to fund a project looking at digital tax issues for older people⁴. We sought to understand what would succeed in getting older people aged 60+ with low levels of computer skills to access and manage their own digital personal tax accounts and overcome barriers to engaging with their finances online.
- 1.8 The project was aimed at struggling older people in retirement across the UK who had below Basic Digital Skills as defined by Go ON UK. Four different methods of support were provided to help participants to access their Personal Tax Account (PTA) and/or their Self-Assessment form online through the HM Revenue and Customs (HMRC) website by themselves. Participants were offered the option of either: a written guide; an online guide; over the phone support from an adviser or face-to-face support from a volunteer adviser. The different methods of support resulted in different levels of success to access and manage online personal tax information; the most successful methods in this study were through a written guide (82% were able to access their PTA and/or complete their online tax return using this method) and through face-to-face support (81% were able to access their PTA and/or complete their online tax return).
- 1.9 Through the process of accessing online personal tax information, participants reported an improvement in some aspects of financial capability: satisfaction with their current financial situation; knowledge of where to go to get help with finances, and; understanding the need

³ Financial Capability Survey, 2018

<https://masassets.blob.core.windows.net/fincap-cms/files/000/000/386/original/UK-financial-capability-levels-UK-poverty-statistics-research.pdf>

⁴ <https://www.fincap.org.uk/en/evaluations/digital-tax-for-older-people--what-works>

to keep track of their income and expenditure. In addition, participants reported an improvement in their ability to: use the internet, and; check online that they are paying the correct amount of tax.

2 What is the most effective approach to implementation to ensure the success of Open Communications in enabling innovation and delivering the best consumer outcomes?

3 Are there any further actions we should take to enable consumers to benefit from Smart Data in regulated markets?

3.1 The consultation document is premised on the assumption that the open banking policy development has been achieved and the potential benefits have been secured. The reality is very different from this as set out in the recent report on ‘Consumer Priorities for Open Banking’⁵ by the Open Banking Implementation Entity’s consumer champions, Faith Reynolds and Mark Chidley. This report sets out in detail how much more needs to be done for open banking to fulfil its promise as the spring board for open data and that until this is enabled by government, then open banking will offer only very limited consumer benefits. Page 7 of the report sets out that in order “To realise all the value, consumers need products more closely tailored to their needs, which are designed to engage them more meaningfully and really enhance their lives.”

3.2 However, the report also sets out that “OBIE’s work is not yet finished. People and small businesses need more from Open Banking, but third-party providers (TPPs) can only provide more where the technology and regulation enable them to do so.” The report sets out that further significant developments are required, underpinned by a new regulatory regime. It is widely accepted in the sector that while the Second Payment Services Directive (PSD2) was used to enable Open Banking, its serious shortfalls as a regulatory vehicle for effective Open Banking implementation are now clearly apparent and hindering the further development of the functionality and business cases.

3.3 We would urge BEIS to closely consider the report’s recommendations in order to understand what more needs to happen if we are to deliver the value required for open banking enabled propositions, build consumer trust and stimulate the market more broadly. In particular for wider learnings, the report refers to a recent consumer survey that highlights consumers’ views that the risks outweigh the potential gains from open banking,

⁵ <https://www.openbanking.org.uk/wp-content/uploads/Consumer-Priorities-for-Open-Banking-report-June-2019.pdf>

due to concerns over security, privacy and control. Whilst banking transaction data may particularly raise such concerns, we believe that this still poses challenges for wider use of open data that need to be fully understood and addressed. The report sets out key recommendations to build trust that include: making it clear which firms are legitimate; bringing clarity and control to what happens with onward sharing of data; making consent more traceable and transparent and making redress easy and consistent.

3.4 Open banking and its extension to open finance can underpin many open data applications, but this cannot be achieved without a number of regulatory or market interventions set out in this report, and we would urge BEIS to seriously consider this report's findings and recommendations as part of the work on open data.

3.5 As an example, there may also be potential to combine open banking functionality with smart data to develop products and services that allow consumers to smooth out the peaks and troughs in income and expenditure and providing greater control for the individual consumer compared to using direct debits. Tools that support 'income smoothing' in this way could particularly benefit those with irregular incomes, such as workers in the gig economy, or low incomes more generally.

3.6 We funded a 'Rent Flex'⁶ pilot which worked with social housing tenants to help them with income smoothing of their rent. The 'Supported Rent Flexibility' project was devised by the Centre for Responsible Credit, Well Thought Ltd., and Optivo Housing Association and delivered from January 2017 to March 2018. A group of Optivo's tenants were given the opportunity to set up a personalised schedule of rent payments, allowing them to overpay and underpay at different times of the year depending on the spread of their income across the year. The focus was on tenants in who were responsible for their own rent with dependent children and existing rent arrears of up to £500 or had been in arrears in the past year.

3.7 The pilot found several benefits including participants having a clearer plan for achieving their goals at follow-up than before the intervention. These tenants were also less likely to say that they run out of money always or most of the time at follow-up, less likely to use credit to 'get by' and reported reduced material deprivation.

Smart data in regulated markets

⁶ <https://www.fincap.org.uk/en/evaluations/evaluation-of-the-supported-rent-flexibility-pilot>



4. In which other markets, outside of the regulated and digital markets, would there be the greatest benefits from Smart Data initiatives? Please explain your reasoning

4.1 We believe there is significant opportunity for smart data to support improved and more tailored money guidance and debt advice for individuals, with the opportunity for advisers to obtain information from open banking and potentially energy data to improve the time taken and the quality and reliability of information.

4.2 One such example of this is already being explored by our organisation for the debt advice sector. The Wyman Review⁷ of debt advice funding published last year set out several potential improvements in boosting capacity to keep pace with demand, more consistent advice quality, and reducing cost per session through channel shift and investing in technology. This included a challenge to evolve and improve the sector's debt advice operating model, and we are currently leading work to develop a pilot for a Target Operating Model (TOM) using smart data, that better serves customers in need. The intention is to use a customer's bank account transaction data, with their consent using open banking, to populate the Standard Financial Statement that forms the core of understanding a consumer's total financial situation, including all income and commitments. Populating this automatically should make the initial debt advice process quicker and achieve greater accuracy than relying on a person's recollection at a time when they are particularly stressed. This work is currently in development.

5 What other roles might industry find it useful for Government to perform in addition to it acting as a facilitator for Smart Data?

5.1 It is encouraging to see the focus on the needs of vulnerable consumers and we would encourage a continued emphasis on this issue. There is an important role for government to perform in ensuring that vulnerable consumers benefit from smart data developments but are also protected from potential abuses of smart data, and that redress mechanisms are easily understood and accessible.

5.2 As the government works towards market development of technology using open data, we believe it is in a unique position to influence product design and features and to encourage the inclusion of design features and services that promote financial capability. The financial capability agenda is complementary to the government's focus on customer vulnerability

⁷ <https://www.moneyadvice.service.org.uk/en/corporate/peter-wyman-to-head-independent-review-of-debt-advice-funding>

and financial inclusion. For example, whilst for many people, financial difficulties may arise from circumstances outside their control, low financial capability is contributing to millions of people in the UK being without the resilience needed to deal with financial shocks. Resulting financial difficulties such as problem debt can have a profound effect on a person's mental health and wellbeing and in themselves result in a cycle of increasing vulnerability.

6. Do you agree that we should establish a cross-sector Smart Data Function with the proposed responsibilities set out above?

6.1 We are supportive of a cross-sector Smart Data Function and are encouraged to see the emphasis on benefits to vulnerable consumers within the objective. We would encourage a further development of this objective to include support for financial capability as a characteristic of consumer vulnerability. The FCA Financial Lives 2018 survey⁸ makes this explicit link, citing; *'Potential vulnerability is defined to take into account a range of characteristics. It covers those who may suffer disproportionately if things go wrong, because they have low financial resilience. It also covers those who may be less able to engage with their finances or with financial services. The reasons for this can vary from suffering a recent life event (such as redundancy, bereavement or divorce) to **low financial capability**.*'. The report sets out that that one in six people have low levels of financial capability, approximately 17% of the population.

6.2 The particular benefit of a cross sector data function is to create greater consistency of approach in the sharing of data. We need consumer facing approaches that consumers can understand and that build the confidence to expect particular processes and protocols as a legitimate data process, rather than each type of transaction presenting differently and casting doubt over its authenticity. If we want to create consumer confidence in consenting to share data, for example, then we need to create more standard approaches across sectors that are recognised and trusted by consumers.

7. What would be the best form for the Smart Data Function to take? Should it be, for example, a new body, part of an existing body or some other form?

8. How can we ensure that the costs of Smart Data initiatives are shared fairly between the participating businesses?

⁸ <https://www.fca.org.uk/publication/research/financial-lives-consumers-across-uk.pdf>

Using data and technology to help vulnerable consumers

9. What other actions could the Government or regulators take to support the use of data and innovative services to improve outcomes for vulnerable consumers?

9.1 MaPS focuses on consumers in vulnerable circumstances, rather than calling them vulnerable consumers, to reflect the learning and insights into circumstances that can make any consumer vulnerable for a period of time or in particular contexts, as a result of a particular life event such as divorce or bereavement for example, as well as those in vulnerable circumstances due to a characteristic that might be more permanent such as a disability or long term health condition. Recognising this potentially transient nature is important to focus on all the drivers of vulnerability, and the ways in which the development of smart data and innovative services may impact on those facing them

9.2 Government and regulators must prioritise a focus on consumers in vulnerable circumstances in the regulation of markets and new initiatives. The opportunities and risks offered using data and associated new services and propositions must be fully assessed against the needs of those in vulnerable circumstances. We need to understand these impacts, and how they evolve over time as the challenges faced by consumers in vulnerable circumstances change, and indeed as the factors that create vulnerable circumstances change. For example, the increasing reliance on digital solutions means that those who are least digitally engaged are falling further and further behind and may be subsidising more competitive prices offered to others so that a low level of digital engagement is becoming a more important characteristic of vulnerability in markets.

9.3 However, it is not sufficient to be aware of the specific risks and opportunities for consumers in more vulnerable consumers, there needs to be an ongoing commitment to addressing these swiftly. An example is the opportunity for water and energy companies to share information about consumers on their priority services registers – now that the pilot has been proved successful, and the challenges are better understood, there needs to be a commitment to rolling this out to ensure that companies have better information about who might be in crisis in the case of a supply interruption or who may have particular financial challenges.

9.4 Policy and regulation have a clear role in relation to data and innovative services in identifying and addressing where markets are not going to work for those in vulnerable circumstances, and particularly where new services and propositions may deepen their disadvantage. We reflected this in response to the Financial Conduct Authority's discussion

paper on a Duty of Care in financial services⁹ where we set out our support for the introduction of a New Duty that would give financial services firms a positive obligation to promote customers' best interests; and a fiduciary duty not to cause harm to a customer's financial interests. Without such a duty, regulators will need to be particularly vigilant as markets develop that the implications for those in vulnerable circumstances are understood and addressed.

10. Should we strengthen the powers of sector regulators to enable them to use consumer data to improve their understanding of the challenges faced by vulnerable consumers and to intervene to improve outcomes?

10.1 MaPS would support and encourage government to strengthen the powers of regulators in such a way to allow a greater understanding of how markets are impacting on consumers in vulnerable circumstances compared to others, and the impact of the actions of firms, both deliberate and unintended consequences. It is also important to understand the cumulative impact as suggested in this paper for consumers disadvantaged across a range of essential services and markets.

11. How can we ensure that the Smart Data Function improves outcomes for vulnerable consumers? Do we need to consider any further actions?

11.1 We have set out above our support for a Duty of Care in financial services and whilst some other regulated markets are more explicit in their requirements to respond to the needs of consumers in vulnerable circumstances, in developing new propositions and services enabled by smart data, there must be some kind of obligation or principles that the needs of those in vulnerable circumstances be recognised and any inbuilt disadvantage be addressed and mitigated. Without a consistent regulatory approach and public policy focus, there is a high risk that consumers in vulnerable circumstances experience further detriment or exclusion because of the lack of margin or clear market-led incentives for firms to meet their needs. Regulation should protect consumers in these areas of need and secure feedback loop, so that policymakers, providers and consumer groups can understand the changing risks and issues as markets mature and new products emerge.

⁹ <https://www.moneyadvice.service.org.uk/en/corporate/consultations-and-responses>

Protecting consumers and their data

12. Do you agree these protections for when TPPs use Smart Data are needed? Are there others we should consider?

12.1 We would support the protections outlined.

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13. How should our proposed approach to accreditation operate in practice if it is to effectively ensure that consumers' data are protected and minimise burdens for TPPs?

13.1 The potential for smart data can only be secured by building consumer trust and confidence in a well-regulated market where those operating are accredited, and the accreditation is meaningful, carefully monitored and enforced. Aligned to this, it is therefore critical to ensure a clear and regular cycle for accreditation to maintain standards and confidence, and clarity of triggers for reaccreditation. These should include where there are significant changes to TPP entities and/or systems. to ensure that consumers receive a high standard of service and trust is not undermined.

14. What are the advantages and risks of introducing a cross-sectoral general authorisation regime for TPPs?

14.1 We are supportive of a cross-sectoral authorisation regime to enable TPPs to build familiarity across sectors with consumers which would work towards fostering trust in known names. We would further encourage that TPPs use their unique position as facilitators of user journeys, to direct people to help with financial matters where appropriate. We know from our financial capability survey that people tend to be more engaged with money information, advice and guidance when things are going badly

15. What other options should we consider to ensure that consumers are protected when using TPPs?

15.1 We believe there is merit in exploring a positive duty of care obligation for TPPs, as part of the authorisation regime. This could involve placing a positive obligation on firms to promote customers' best interests; as well as a duty not to cause harm to a customer's financial wellbeing. A new duty could support both regulators and provider those markets to deliver on their commitments to consumers and deliver greater consistency and clarity for consumers

15.2 A new duty could also provide a better balance between firm and consumer responsibilities and help deliver extra protection and better treatment to vulnerable



consumers. There is a complementary relationship between financial capability and regulatory intervention. Some features of regulated markets mean that whether consumers make good choices or not, they face bad outcomes. These problems are exacerbated by the limited cognitive bandwidth created by financial difficulty, vulnerable circumstances or life events. In line with the principle of focusing on prevention rather than cure, a new duty - with a positive obligation to promote customers' best interests - could encourage TPP firms to identify potential customer harm and avoid it.

Contacts:

Valentine Mulholland

Senior Policy and Propositions Manager

Money and Pensions Service

valentine.mulholland@moneyadvice.service.org.uk

Bee Thakur

Policy and Propositions Manager

Money and Pensions Service

Bee.thakur@moneyadvice.service.org.uk